

Medium Term Financial Plan 2016/17 to 2020/21

1. Purpose of the Medium Term Financial Plan

- 1.1 The Medium Term Financial Plan (MTFP) is part of the Council's Policy Framework as set out in Article 4 of the Constitution. Its key purpose is to ensure that resources are directed towards delivery of the Corporate Plan 2015/20.
- 1.2 It describes the financial direction of the Council for planning purposes and outlines the financial pressures over a 5 year period, but is reviewed annually to reflect the changes to local requirements, economic conditions and government funding.
- 1.3 It also supports our ambition to be recognised as a leading authority that delivers quality services, that provides value for money and that makes the borough a great place to live.

2. Benefits of the MTFP

- 2.1 The MTFP assists in:
 - Meeting the priorities of the Five Year Plan 2015/20.
 - Improving financial planning and the financial management of the Council's revenue and capital resources.
 - Maximising the use of resources available to the Council, both internal and external.
 - Ensuring that the Council provides value for money and delivers budget savings.
 - Allowing the development of longer-term budgets and strategic thinking.
 - Aligning financial resources to the Council's spending priorities.
 - Reviewing the Council's reserves policy to ensure there is protection against unforeseen events.
 - Developing financial sustainability over the medium-term.
 - Highlighting financial risks and developing mitigating controls.

3. Principles of the MTFP

- 3.1 The principles underlying the MTFP are as follows:
 - The overall financial strategy will be to ensure that the Council's resources are directed to achieving the priorities set out in the Corporate Plan.

- The Council recognises that it will not be able to continue to resource current levels of service without budget savings, changes to service, new sources of income or some combination of the three.
- The Council will maintain its General Fund reserve at a minimum of 15% of the annual net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFP without the use of the General Fund.
- Earmarked reserves will be maintained for specific purposes which are consistent with achieving key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFP and reviewed annually.
- The Council will continue to improve its approach to commissioning and procurement to ensure value for money and minimise the impact of budget savings.
- The Council recognises the impact of increases in Council Tax levels on our residents and will balance the need for Council Tax increases against the delivery of services and the Corporate Plan.
- We will ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay. Where appropriate a more commercial approach to charging will be adopted.
- The Council will consider ways in which it can ensure financial sustainability and maximise income to deliver its priorities. This will include the development of property - based projects to capture both revenue and capital income opportunities.
- The Council will – when appropriate - consider the use of prudential borrowing to support capital investment and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken.
- Opportunities for securing external funding to support the objectives of the Corporate Plan will be sought. The implications of a reduction or withdrawal of funding will also continue to be reviewed so that options can be considered around the future of such externally funded schemes. It is essential that a short-term benefit to the Council does not become a long-term, unfunded cost.
- Opportunities for working in collaboration will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery.
- The Service & Financial Planning process will inform a review of the MTFP on an annual basis. This review will include an update of the five-year forecasts, expected developments in services, and changes to legislation.

4. Current Financial Context

- 4.1 In the Spending Review announcement in June 2013 the Chancellor confirmed that spending plans would continue on the same trajectory as the 2010 Spending Review and that austerity measures are likely to remain in place until at least 2018. This was reiterated in the Budget Statement in July 2015.
- 4.2 In addition the Office for Budget Responsibility (OBR) forecasts that the Government's current account will remain in deficit until 2018/19 at the earliest.
- 4.3 In line with these statements it is anticipated that Revenue Support Grant will fall from the £1.6m allocated for 2015/16 to zero in 2018/19.

5. Economic Trends

Interest Rates

- 5.1 The base rate has remained at 0.50% since March 2009 and it is not expected to rise until 2016.

Table 1	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Interest Rates	%	%	%	%	%
Forecast Bank Rate	1.0 %	1.5%	2.0%	2.5%	2.5%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

Inflation

- 5.2 It is anticipated that the rate of inflation (as measured by the Consumer Price Index or CPI) will be close to the Bank of England target of 2% in the medium term.

Table 2	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Inflation (CPI)	%	%	%	%	%
Forecast CPI	1.5%	1.9%	2.0%	2.0%	2.0%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

Economic Growth

- 5.3 Economic growth – as measured by Gross Domestic Product (GDP) - is forecast to rise over the next five years.

Table 3	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Growth	%	%	%	%	%
Forecast GDP Change	2.5%	2.4%	2.4%	2.3%	2.3%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

6. Revenue Budgets

- 6.1 The net revenue budget for 2015/16 was set at £15.670m in February 2015. To achieve a balanced budget for each year of the forecast period it is anticipated that the following savings will be required.

Table 4	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Savings	£000	£000	£000	£000	£000
Savings Required	600	450	450	400	0

- 6.2 Savings opportunities (and growth pressures) will be highlighted through the rolling Service & Financial Planning process.
- 6.3 The forecast savings above are based on projected levels of government grant, likely economic conditions and other “local” factors set out in the following sections.

i. **Council Tax**

It is assumed that this will increase by 2% per year over the forecast period.

ii. **Retained Business Rates (NNDR) Income**

It is assumed that this will increase in line with the inflation assumptions in section 5.2.

iii. **Fees & Charges**

It is assumed that – where possible – these will increase in line with inflation forecasts in section 5.2.

iv. **Investment Income**

The security of cash deposits will remain paramount. As a result investment income has been assumed to be at a level consistent with the forecast base rates in section 5.1.

v. **Borrowing**

When new projects are brought forward the most appropriate way of financing them will form part of the appraisal of financial viability. For example, it is proposed that the Marketfield Way project in Redhill is financed by borrowing with the costs of the debt being met from the rental income created by the development.

vi. **Staff**

An allowance for a pay award approximately in line with the inflation projections in section 5.2 has been included in each year. This provides the option for pay rises but will be considered on a year-by-year basis and be subject to the normal consultation process.

7. Capital Programme

7.1 The Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to the Council achieving its long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings across the Council and providing optimum services.

7.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.

7.3 The Prudential System of Local Government Capital Finance has operated since 2004 and allows local authorities to borrow as long as their capital spending plans are affordable, prudent and sustainable.

7.4 In order for borrowing to be considered prudent, affordable and sustainable there must be a long-term source of revenue funding to meet the costs of borrowing. Ideally this will come from revenue savings or from additional income generated directly from the capital project.

7.5 The Capital Programme to 2020/21 is summarised below (detail to follow).

Table 5	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Summary	£000	£000	£000	£000	£000
Capital Reserves at 1 April	14,956	12,812	11,141	9,483	8,528
Add Receipts & Grants	8,645	1,018	972	972	972
Less Expenditure	10,789	2,689	2,630	1,927	2,801
Capital Reserves at 31 March	12,812	11,141	9,483	8,528	6,699

- 7.6 Capital receipts from the sale of assets are held in reserves and treated corporately to allow the Council to target resources toward the highest priority projects.

8. Revenue Reserves

- 8.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Chief Finance Officer is required, as part of the budget-setting process, to provide a statement on the adequacy of reserves.

Reserves Policy

- 8.2 The Council will maintain its general reserve (the General Fund) at a minimum of 15% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFP without reliance on the use of the general reserve.
- 8.3 Other “earmarked” reserves will be maintained for specific purposes which are consistent with achieving key priorities and/or are required to separately account for Government funding streams. The Service & Financial Planning 2016/17 report proposes the creation of a new Income Equalisation reserve to help protect against income volatility (paragraphs 75 – 77).
- 8.4 The Council’s current revenue reserves are set out in the following sections.

i. **General Fund**

This acts as a buffer against unpredicted budget pressures. The current (unallocated) level of around £6.3m is greater than the minimum level required but is regarded as prudent given uncertainty around the timing of grant reductions and the impact of welfare reform.

ii. **Corporate Plan delivery Fund (CPDF)**

This provides time-limited funding to deliver key priorities and invest-to-save initiatives. The current balance is £1.4m and the expected usage in 2016/17 is £0.6m.

iii. **Business Rates Equalisation Reserve**

This was established to mitigate the impact of any fluctuations in retained business rates income resulting from, for instance, a back-dated rating appeal or a major employer leaving the area. The balance is £1.0m.

iv. **Insurance Reserve**

This provides cover against uninsured losses and has a balance of £550,000.

v. **New Homes Bonus (NHB) Reserve**

This was established to separately account for NHB income prior to it being used. The balance is £5.2m.

vi. **Superannuation Reserve**

This was established to “smooth” any sudden increases in pension cost. If the recent changes to the pension scheme prove successful in reducing/eliminating the deficit it may be possible to reduce this in the future but it is recommended that this reserve be retained at present. The balance is £1.5m.

vii. **Growth Points Reserve**

This was established to separately account for Growth Points funding prior to it being used. The balance is £286,000.

viii. **Families Support Programme Reserve**

This was established to separately account for the funding of this initiative prior to it being used. The balance is £59,000.

ix. **High Street Innovation Reserve**

This was established to separately account for the funding of this initiative prior to it being used. The balance is £70,000.

x. **Business Support Scheme**

This was established to separately account for the allocation of funding to help flood affected business. The balance is £148,000.

9. Risk Management

9.1 The Council's Strategic Risk Register contains the following:

If we don't reduce our reliance on government grant funding over the medium term, future decreases in grant levels and the impact of welfare reform could lead to unplanned reductions in services / service delivery standards and/or failure to deliver on all our corporate objectives.

9.2 The principles and assumptions contained within this Plan are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

9.3 Individual revenue and capital budget proposals will be subject to detailed risk assessment as part of the Service & Financial Planning process.