PAPER C

OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING: **17 SEPTEMBER 2013**

TITLE OF REPORT: **MEDIUM TERM FINANCIAL STRATEGY 2013/14 TO 2016/17**

Report of: **Head of Finance**

Cabinet Member: **Councillor Ken Crookes, Leader**

1. PURPOSE OF REPORT

1.1 At its meeting on 21 May the Committee received a report on the MTFS following a request from Cabinet to "investigate the scope for better Medium Term financial Planning in the Council". The report was intended as an opportunity to commence consideration of how that objective could be achieved and the Committee agreed that a further report should include:

- Potential impact of actuarial valuations on future pension costs
- Scenario testing on potential impact assuming a change in government grant levels

1.2 This report provides a further update and the attached appendix provides a financial projection up to 2016/17.

2. OFFICER RECOMMENDATION

2.1 The Committee are asked to review the contents of this report and provide any comments or views they wish to submit to Cabinet for consideration.

3. BACKGROUND

3.1 The previous report to this Committee illustrated the reductions in grant that the Council has seen since 2010/11. Cumulatively, the reduction was 49.2% in revenue support grant. Whilst this had been partly offset by New Homes Bonus, the Chancellor's autumn spending review on 26 June was awaited to see what impact on grant levels was likely in future years. The impact of the Comprehensive Review and assessing the probable effect on Hart is an important plank to future revenue projections.

4. IMPACT OF COMPREHENSIVE SPENDING ASSESSMENT (CSR)

4.1 There are four main components of the CSR which are particularly relevant to Hart's finances for 2014/15, 2015/16 and beyond.

- The revenue support grant (now called Start-Up Funding Assessment) for 2014/15 was provisionally set at £1.957m for Hart. Indicative figures are that this figure may reduce by 1%.

- The Spending Review quotes a "reduction of 2.3% in local government spending for 2015/16". However because of the amount of ring fenced expenditure, grants to District Councils will fall by significantly more than 2.3%. The Local Government Association has produced an analysis of probable cuts in grants for all Councils, and for Hart the estimate is a reduction of 14% in 2015/16.

- Councils will again be offered a grant to freeze Council Tax. Details are not yet known but it is assumed it could be:

  2014/15 – funding for 2 years at 1%
  2015/16 – funding for 1 year at 1%

- The Government has also set the Council Tax referendum threshold at the lower figure of 2%. For the purposes of the MTFS it is assumed Hart will agree to again freeze its Council Tax for these 2 years.

5. SUPERANNUATION – EMPLOYERS CONTRIBUTIONS

5.1 Hampshire County Council administers the pension fund for admitted bodies, including Hart District Council. A statutory financial valuation was undertaken by actuaries as at 31 March 2013 and the results will be available at a specially convened pension meeting on 7 October. Revised pension contributions will be payable for 3 years from 1 April 2014 and it is probable the current rate of 13.1% of employee salaries will increase. A 1% increase would add £50k to the annual revenue costs of the Council. An assumed rate of 16% has been used for the purposes of this projection but that is very much an estimate as the actuaries will not release any advance indications until they have completed the valuation exercise. (The Council also pays a 6% contribution towards past deficits on the fund. No assumptions have been made on whether this will change.)

6. GOVERNMENT GRANTS

6.1 The uncertainty of future levels of government grant highlights the risk to the Council's MTFS. As mentioned earlier, all of the New Homes Bonus is used to support the revenue account. In the event of a new government not continuing with the scheme and not replacing it with additional revenue support then the impact on Hart's finances would be huge. As can be seen in the attached Appendix, a loss of £886k New Homes Bonus from 2016/17 would require significant adjustments to the Council's finances.

6.2 From 2013/14 business rates income is partially retained by the Council. A proportion of anything raised above what the Government expects the Council to raise (the baseline figure) can be retained by the Authority. Current indications are that the Council is raising above its baseline in 2013/14, but, given the uncertainty around the future economic outlook, the MTFS assumes the Council will collect business rates at the baseline level.

7. RENTAL INCOME

7.1 The Council has agreed to let part of its spare capacity in the Civic Offices to three local organisations. This will yield additional rental income of £100k for some years to come.

8. INFLATION/PAY AWARDS

8.1 Inflation is currently running at 2.8% (RPI as at July 2013). Although costs will increase, service managers will be asked to absorb inflation within existing budgets. However, where contractual commitments require uplifts in contracts, full budget provision will be necessary. The total cost of contracts is over £9m per annum, so RPI increases have a large impact on the revenue budget. (The main contracts do not come up for renewal before 2017.)

8.2 The national pay award for the public sector in 2010/11, 2011/12 and 2013/13 was 0%. An award of 1% has been agreed for staff below Chief Officer level for 2013/14 (for Chief Officers there will again be no increase.) The following inflation assumptions have been included in the projections of this report:

1. Pay Awards – to continue at 1%
2. General Inflation – 0%
3. Contractual Commitments – usually RPI
4. Fees and Charges – uplift annually by 2%

9. INTEREST RATES

9.1 The Bank of England base rate has been maintained at 0.5% since April 2009. Mark Carney, the new Governor, has indicated that he expects this rate to continue for some time yet. Currently this Council has no long term borrowing and invests it reserves and cash flow in the money markets. Interest earned in the current year is budgeted at £160k but it will become increasingly difficult to achieve such a return.

10. RISK MANAGEMENT

10.1 The Council is required to maintain a minimum level of General Fund Reserves that equates to approximately 1% of net expenditure (£900k in Hart's case). For the life of this strategy the reserve needs to be set at a minimum of £900k.

10.2 At the end of 2013/14 it is predicted that the reserve will be around £3m, comfortably more than the minimum level required. Although this is a healthy balance there are undoubtedly significant financial pressures to come in future years. The current position provides an opportunity to prepare for those future pressures without the need for sudden reductions in service levels.

10.3 Hart Council has a good record in controlling costs over the last few years and it is necessary for that discipline to continue. The greatest risk to the Council's finances is probably the level of future government grant, particularly the New Homes Bonus.

10.4 Every time that council tax is frozen it puts increased pressure on finances as the amount of income lost in perpetuity grows every year.

11. ALTERNATIVE SCENARIOS

11.1 A number of scenarios are possible but the factors that are under the control of the Council are useful in illustrating how the level of reserves required for 2016/17 could change. Appendix 2 shows the impact on reserves (positive) if Council Tax is increased by 2% per annum and (negative) if discretionary charges are not increased annually.

12. CORPORATE PLAN

12.1 It is important to link the Council's priorities as identified in the Corporate Plan, with the financial resources available to the Council. On 26 September the Council will consider the adoption of a new Corporate Plan which include a number of service improvements and new service initiatives. The attached projections do not include any provision for growth and decisions will need to be made on what is affordable and what are the priorities in future service levels.

13. CONCLUSION

13.1 It is fairly certain that the Council will continue to face serious financial pressures as we know Government financial support will continue to reduce. At the same time local authorities are facing increased pressure not to increase Council tax (and some other charges) whilst still being responsible for a high level of services. The consequences for District Councils such as Hart cannot be definitely stated as yet but it is clear that challenging decisions may be required at soon as 2015/16. The Council will need to develop a service/budget strategy that develops ways of dealing with the financial pressures as and when they arise.

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APPENDICES:
Appendix 1 - General Fund Revenue Projection to 2016/17
Appendix 2 – Impact on Reserves

BACKGROUND PAPERS:
- Various Government Consultation Papers
- Comprehensive Spending Review 2013

APPENDIX 1

GENERAL FUND REVENUE PROJECTIONS

	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000
Net costs of services	9,420	9,560	9,784	10,008
Less				
Interest on balances	(132)	(120)	(120)	(120)
Council Tax retention scheme	(10)	-	-	-
Homelessness Grant	(178)	(178)	(178)	(178)
Council Tax discount grant	(276)	(276)	(276)	(276)
Elections Grant	(50)	-	-	-
New homes Bonus	(772)	(902)	(736)	(886)
Council Tax Freeze grant	(205)	(265)	(120)	-
	(1,623)	**(1,741)**	**(1,430)**	**(1,460)**
Net budget requirement	**7,797**	**7,819**	**8,354**	**8,548**
Financed by				
Business rates/revenue support grant	(2,316)	(1,937)	(1,666)	(1,650)
Collection fund surplus	(68)	(60)	(60)	(60)
Council tax Income	(5,650)	(5,680)	(5,710)	(5,740)
Transfer to/(from) reserves	**237**	**(142)**	**(918)**	**(1,098)**

Balance as at 1st April	3,071	3,308	3,166	2,248
Transfer to/(from) reserves	237	(142)	(918)	(1,098)
General fund balance 31st March	**3,308**	**3,166**	**2,248**	**1,150**

Appendix 2: Scenario testing of the central case and alternative assumptions