

This Report will be made public on 15 May 2017

**Folkestone**

Hythe & Romney Marsh  
Shepway District Council



Report Number **C/17/03**

**To:** Cabinet  
**Date:** 31 May 2017  
**Status:** Key Decision  
**Corporate Director:** Tim Madden, Organisational Change  
**Cabinet Member:** Councillor David Monk, Leader of the Council

**SUBJECT:** Updated Medium Term Financial Position

**SUMMARY:** The medium term financial position updates the latest forecast for the Council's financial projections. It seeks to take a view over the medium term so that the Council can undertake its financial planning in good time and carry out any required actions in a planned and timely manner.

**REASONS FOR RECOMMENDATION:**

The Cabinet is asked to agree the recommendations set out below because:-

- (a) The council needs to be able to carry out an early assessment of the financial implications of its approved policies and strategies and also external financial pressures facing the authority to ensure that it has robust budgeting and remains financially viable.
- (b) It allows for actions to be undertaken over a longer term and therefore these can be planned and implemented effectively.
- (c) It allows actions which have a long lead in time to be developed and considered effectively over a longer period.

**RECOMMENDATIONS:**

Cabinet is asked to:

1. To receive and note report C/17/03.
2. To note the current financial position of the council (Section 2).
3. To consider the key strategy areas outlined in section 3 and any recommendations it wishes to make.
4. To agree to receive detailed proposals at future meetings in order to progress the overall strategies to meet the future financial challenges.

## 1. INTRODUCTION AND BACKGROUND

- 1.1 The current Medium Term Financial Strategy (MTFS) was approved by Council on the 14<sup>th</sup> September 2016. In the subsequent 8 months, the council has set its 2017/18 budget and central government has issued the local government finance settlement, its budget and also the Autumn Statement. The Council is now beginning preparatory work looking at its future financial strategy. This paper looks to set the context, updated financial forecast and proposed strategies in order to prepare the council to meet the challenges facing it in the future.
- 1.2 This paper does not represent a complete rewriting of the MTFS. It is designed to update the financial forecasts and to consider the broad context within which future decisions will need to be made. This will look to identify approaches to produce a balanced budget not only in the next financial year (2018/19) but also to set the foundations for future years.

## 2. PROJECTED FORECAST

- 2.1 The MTFS considered by council in September identified the medium term forecast as set out in **Table 1** below:

**Table 1 – MTFS projection at September 2016**

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
In year Deficit	0	473	971	1,514
Cumulative Deficit	0	473	1,444	2,960

This was based on the plans in place at the time to balance the 2017/18 budget and the information available for medium term forecasts. In light of the additional developments set out in paragraph 1.1 above and also as part of the ongoing cycle of reviewing and updating the finances of the council, it is timely to update those assumptions.

- 2.2 In reviewing the financial forecast, the following approach has been adopted:
- The starting point is the 2017/18 budget as approved by Council at its meeting of 22 February 2017
  - Assumptions have been made in relation to pay and price inflation over the period of the MTFS. The later years of the forecast will inevitably be based upon estimates as to the likely impact of these.
  - Agreed decisions which impact on future years have been incorporated into the forecast. Where those decisions are not yet in place, an estimate has only been included if there is a certainty the pressure will be incurred although the exact amount is unclear

- For central government funding, there are a range of certainties as to the level which will be received by the council. For the major funding flows, these have been judged on a case by case basis. However it is important to note that these, by their nature, are subject to national government decisions.
- Fees and charges are assumed to continue at the current base level and no assumption has been made about any potential decisions to adjust these.
- The Shepway District Council element of the Council Tax has been assumed to increase by 2% per annum although this is clearly an annual Political decision. The council tax base has been assumed to increase by 0.5% per annum.

A schedule of the assumptions underpinning the forecast is set out in **Appendix A**.

2.3 The impact of the above is shown in summary at **Appendix B**. Below at **Table 2** the highlight position is shown:

Table 2 – Updated Medium Term Financial Forecast

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
In year Deficit	574	1,151	1,742	3,058	4,380	4,828	4,984
Cumulative Deficit*	574	1,725	3,467	6,525			

\*The cumulative deficit shows financial position if no action is taken to address the in year deficits on an ongoing basis.

It should be noted that the shaded columns are outside of the usual MTFs range. However, they indicate the ongoing nature of the “in year” deficit although the cumulative position has not been extrapolated.

2.4 The change in the financial forecast is due to certain significant factors which impact upon the later years of the strategy. Some of the key impacts and assumptions are explained below.

2.5 Changes to New Homes Bonus (NHB)

The local government finance settlement announced in December 2016 made significant changes to the NHB arrangement. Originally this was due on all properties identified in the Council Tax Base form. Between years with an average Band D council tax payment for each net additional property plus £350 for each additional affordable home. This “bonus” was then paid for 6 years. The system has been changed in 2 significant ways. Firstly the period of the bonus is being reduced to 5 years (for the 2017/18 bonus) and then to 4 years thereafter. Secondly, the government introduced a minimum growth level of 0.4% below which no NHB would be paid. This has had a significant impact upon the financial forecasting of a number of local

authorities. For Shepway this would require approximately 200 additional properties

It is also unclear as to the future role of NHB particularly given the pressure nationally on social services budgets. The financial forecast assumes the current arrangements will run their course but that no additional funding will become available. This represents a prudent approach however the model does assume support from the existing NHB reserve (made up of previous NHB receipts) will continue at its present rates until this is exhausted during 2021/22. This in itself becomes a significant impact from 2022/23

## 2.6 Business Rates (NNDR)

The current funding of business rates is based on a system which allows local authorities to keep 50% of any business rates growth within the local authority area. The system is a complex one and consists of a system of top ups, tariffs and safety nets to protect authorities who have a declining base. Shepway is also part of a Kent "pool" which combines most Kent authorities to maximize the benefit of the system to the area.

The government is committed by 2020 to introduce a system which will provide for 100% of business rates growth being retained within the local authority area by 2020. There are currently a number of aspects of the change being considered by government and the new system is likely to continue to feature many of the characteristics of the existing arrangements. However, there is still a lack of clarity as to how this change will be implemented in detail and any additional responsibilities which may be transferred as part of the arrangements. The financial forecasts set out above have therefore not made any allowance for this change and have assumed the status quo remains in place. However it is recognized that this is a policy issue which will need to be closely monitored to understand the financial impact on the council in future years.

## 2.7 Re tendering of the waste contract

The current waste contract with Veolia Environmental Services (VES) is due to end in January 2021. The current indications at present are that there are significant cost pressures arising within the current contract in relation to processing and disposal costs across East Kent and collection costs in Dover and Shepway. An additional potential pressure is the uncertainty regarding the continuation of the Kent County Council enabling payment of £748,000 per annum. Officers from the four districts and county council are currently looking at the options available to East Kent in terms of both collection and disposal arrangements. This will be the subject of further reports to Cabinet. However, the current financial forecast needs to recognize the potential significant future financial pressure this will create. The forecast assumes a growth impact of £1.5 million per annum (£0.35 million in 2020/21 and £1.5 million in 2021/22). Whilst this is dependent upon the discussions, which have just started and the results of the tendering exercise, current trends are indicating a significant cost to continue the service at current levels.

## 2.8 Otterpool Park Garden Town

The current financial position reflects the funding needed to support the process to achieve outline planning permission for the development of Otterpool Park Garden Town in late 2018. In financial terms, all advice taken and consideration given by the council to the development indicates it will be of significant financial benefit to the council in the future. In the short to medium term, there are likely to be costs incurred which will need to be managed before any financial return is realized. The approach the council will wish to take is currently being developed and has not, as yet, been included in these forecasts. This will be considered by Cabinet at the appropriate time.

## 2.9 New Legislation

Inevitably the government will introduce new legislation and responsibilities for local government. These will be considered as they are introduced and will be the subject to future Cabinet reports and budget consideration. Under the New Burdens agreement, any additional responsibilities should be provided for with transferred funding although it is unclear if this arrangement will continue with the 100% transfer of business rates. The implications of any new responsibilities will be assessed on a case by case basis.

## 2.10 Sensitivity Analysis

Within the above forecast are a number of assumptions which are based upon anticipated trends in relation to key income drivers and cost pressures. There are some key sensitivities which are set out below:

	Financial Impact - Variance
Business Rates Income – 2% change over presumed current level	£90,000
Change in Council Tax Base – 0.5% changed over current level;	£47,500
Pay Award – 0.5% change	£60,500
Council Tax – a 1% change from current 2% assumed increase	£84,000

The potential impact on the above forecasts ranges between a worsening position of £282,000 per annum to an improved position of £198,000 per annum.

## 2.11 Summary

The above has set out the current forecast position of the council together with an explanation of some of the uncertainties, assumptions and key

pressures. The forecast indicates that there are significant future financial pressures facing the authority although this situation is not dissimilar to other local authorities at this point in time. Consideration needs to be given to the strategies and actions required to bridge the immediate deficit and lay the foundations for future stability.

### **3. CONSIDERATION OF FUTURE STRATEGIES**

3.1 The above position sets out some financial challenges which increase particularly from 2021/22. The following sections propose actions and strategies to be adopted to start addressing that shortfall. The earlier actions are implemented then this will contribute addressing any financial issues. The proposals below

#### **3.2 Review of current spending arrangements**

Financial discipline within the council has been strong with spending continually remaining within the budget allocated for a number of years and pressures being managed within those budgets. Over the last 3 years, there has been “right sizing” of the budgets to ensure there are no hidden contingencies and that budgets accurately reflect planned income and expenditure. However, given the current financial forecast, it is proposed that the following actions are put in place to ensure continuing financial robustness and discipline:

- That CMT lead a review during the summer of 2017 of all expenditure areas to identify those which are considered optional or which are no longer a priority. This will form part of the overall budget strategy to be considered by Cabinet in November
- That the current financial responsibilities and scheme of delegation are tightened with immediate effect to ensure there is a strict focus on ensuring efficiency and avoiding any unnecessary spending. Scheme to be implemented by the Council’s S151 officer through CMT and monitored through the regular monitoring reports.

Any ongoing impact of the above measures will be incorporated into the budget strategy when it is presented to Cabinet in November.

#### **3.3 Increased Commercial Opportunities**

There are a number of opportunities across the council for delivering a more commercial approach whether this is through selling services to other organizations or individuals, or through adopting more commercial skills in order to invest in those assets which will produce a return.

The council has used Oportunitas to provide not only housing but also grounds maintenance activities. There is the opportunity to expand its activities to achieve an income stream for the council to support its financial position. An independent financial review of the company has recently been undertaken and a future report will be brought back to Cabinet to look at how its business plan can be renewed to maximize returns.

There will also be other services within the council which, should members agree, could look to operate on a more commercial basis. In particular, this would include Lifeline, property services and some back office services. Some of this will relate to selling services whilst others will be by adopting a commercial approach in dealings with the council.

### 3.4 Income Generation

The council will look at ways at optimizing its income generation through a thorough review of its fees and charges. In particular it will consider those areas which need to be more fully exploited and where there is scope to increase charges to address the deficit.

Another aspect will be to review the council's annual investment strategy to enable investments in funds with a greater return than the current markets provide. This will also include investments in assets which provide the opportunity to reduce ongoing service costs.

### 3.5 Service Reviews

There will be a review of services against the currently approved corporate plan to determine whether they are still priorities for the council. As part of these reviews, the Asset Management Plan will also look to optimize the use of assets and to realize those which are surplus to the needs of the council or which cost the council money. The aim will be to ensure the retained assets provide value to the council and remove costs where possible.

In addition, alternative ways of working will continue to be explored. These will include continuing to expand the digital delivery of services including the investment in the infrastructure to support these and exploring opportunities for collaborative working where the opportunities arise.

### 3.6 Next Steps

The above represent broad areas of work which will need to be considered in more detail before being presented to Cabinet for formal decisions.

### 3.7 Conclusions

The above paper sets out the forthcoming financial challenges faced by the council and some proposed broad strategies for looking to address those challenges. Further work will need to be undertaken to consider the options for the council and to put into effect remedial measures at the earliest opportunity.

## **4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **4.1 Legal Officer's Comments (DK)**

There are no legal implications arising directly out of this report.

### **4.2 Finance Officer's Comments (TM)**

These are contained within the body of the report

#### 4.3 **Diversity and Equalities Implications (TM)**

None arising directly from this report. As actions are developed then an equality impact assessment will be made as appropriate to the action being undertaken.

### 5. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

#### 5.1 Councillors with any questions arising out of this report should contact the following officer prior to the meeting

*Tim Madden, Corporate Director, Organisational Change  
Tel: 01303 853371 E-mail: tim.madden@shepway.gov.uk*

The following background documents have been relied upon in the preparation of this report:

No background documents have been used.

#### **Appendices:**

Appendix A: Underpinning Assumptions for the forecast

Appendix B: Summary Financial Forecast



Appendix A – Underpinning Assumptions for forecast

Pay inflation	Estimated annual increase of 1.5% per annum plus allowance for increments and estimated pension revaluation in 2020/21. Vacancy provision of 2% built into base.
Contract Inflation	Built in at prevailing rates within existing contracts
Council Tax	Assumed 2% annual increase. Council Tax base increase of 0.5% per annum. Collection Fund surplus of £100k per annum.
Revenue Support Grant	Based on government notification. Reduces from £848k in 2017/18 to £305k in 2018/19 and then disappears.
Business Rates	Assumes current system remains and change to 100% retention will be assessed once detail is known. Multiplier growth based on 2% per annum.
New Homes Bonus	Continuation of current receipts allowed for but assumes no new monies from 2018/19
Fees and Charges	Based on current budgets and existing policies.
Waste Contract	Estimated significant growth item at the end of 2020/21 with a full year effect into 2021/22
Service budgets	Based on 2017/18 baseline