

This Report will be made public on 2 October 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/47**

To: Cabinet
Date: 11 October 2017
Status: Key Decision
Corporate Director: Tim Madden, Organisational Change
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: Medium Term Financial Strategy 2018/19 to 2021/22

SUMMARY: The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It puts the financial perspective on the council's Corporate Plan priorities, expressing the aims and objectives of various plans and strategies in financial terms over the four year period ending 31st March 2022. It covers both revenue and capital for the General Fund and the Housing Revenue Account. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

REASONS FOR RECOMMENDATION:

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

- (a) The MTFS is the council's key financial planning document.
- (b) The strategy defines the financial resources needed to deliver the council's corporate objectives and priorities and covers the financial implications of other key strategies.
- (c) 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.

RECOMMENDATIONS:

Cabinet is asked to recommend to Council:

1. To receive and note Report C/17/47.
2. To recommend that the Medium Term Financial Strategy, as appended to this report, is adopted.

3. To agree the flexible use of capital receipts as set out in the report to fund the council's future efficiency programme.

1. THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 1.1 The MTFS is the council's key financial planning tool and underpins the strategic approach to financial planning. It is a live document which needs to be periodically reviewed to reflect changing priorities and objectives. As the MTFS outlines the financial resources necessary to deliver strategic priorities, it should not be viewed in isolation but as part of the wider corporate process.
- 1.2 The council last reviewed the MTFS at its meeting of 14 September 2016. The attached MTFS has updated the document agreed at that point based on the work completed to date in preparation of the 2018/19 budget. The detailed budget strategy, which sets out the detailed preparation for the 2018/19 budget, will be presented to Cabinet at its meeting of 15th November 2016. The MTFS provides the medium term view of the financial position of the Council.
- 1.3 The attached document reflects a summarized version of the key financial elements facing the Council. It covers key areas of the council's finances and in particular updates the financial projections which are of importance at this stage of the process and links to the new corporate plan. The intention is, once the 2018/19 budget is completed, to refresh this document and to present the full version to Cabinet and Council which will take into account the final budget of the council which will be agreed in February 2018.
- 1.4 As in recent years, local authority financial management is set against a background of uncertainty and the MTFS is subject to influence outside the authority's control. Nationally, the uncertainty following the "Brexit" vote, the change of Political leadership and any potential impact on the economy and public finances means that all local authorities need to try and plan for future uncertainties. In addition, there are a number of pieces of local government legislation currently under consideration which will mean that the environment for local authorities is changing and they will need to adapt to new circumstances. Key changes include the future funding arrangements for Business Rates, the end of the Revenue Support Grant and any structural or devolution proposals which will affect councils in different areas according to local circumstances. These will have a significant impact upon the financial profiling of the Council. The impact of decisions arising from council policy could also affect the MTFS and therefore further iterations of the MTFS will reflect the financial implications of those decisions taken.
- 1.5 The current strategy has been developed in the context of this period of uncertainty. As such, assumptions have had to be made with regard to future income streams and assessments of future government grant. Although these are very much best estimates, they are taken in the context of the current economic climate and the expected continuation of the desire to eliminate the current deficit. As such, a difficult but realistic forecast of income trends has been incorporated into this MTFS model.

- 1.6 There is significant long term pressure upon the finances of the council. These were set out in some detail in the previous report to Cabinet on the 31st May 2017 (Report C/17/03) and the current MTFS is largely based upon those assumptions.
- 1.7 The current MTFS forecasts a cumulative funding gap of £6.525 million over the lifetime of this MTFS. This is based on a 2% annual council tax increase for the period of the MTFS. These will be subject to Political decisions at the appropriate time. The table below also shows the cumulative deficit over the period of the MTFS.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Deficit	574	1,726	3,468	6,525

- 1.8 The position set out above is in advance of the budget strategy which will be presented to Cabinet at its meeting of the 15th November. That will address the detailed measures to consider the deficit for 2018/19 in terms of identifying savings but also any known cost pressures. In light of the increasing pressures facing the council, all budget considerations will also look at the impact in future years and the sustainability of any options.
- 1.9 As part of the 2016 Finance Settlement, the government indicated it wished to offer local authorities the option of producing an “Efficiency Plan” in exchange for “locking into” the four year settlement for Revenue Support Grant as set out commencing in 2016/17. The format of that plan is undefined however it is clear that the government does not wish to create a significant bureaucracy and will expect it to contribute to financial management of the authority.
- 1.10 The MTFS to a large extent covers the requirements of the efficiency plan, however there has been additional text added to make the links to wider corporate documents which will shape, influence and direct the future role of the Council including its financial stability. The statement was agreed by the DCLG during 2016.
- 1.11 A further development the government has introduced is to allow greater flexibility in the use of capital receipts. This allows capital receipts to be used to fund revenue investments provided they meet certain criteria which are set out within the MTFS. This allows the investments needed to be drawn from capital rather than needing to be taken from revenue thus increasing the flexibility for the Council. The previous MTFS utilised the capital receipt arising from the sale of 3 – 5 Shorncliffe Road to fund its digital delivery programme and to support the revenue savings arising out of these. It is intended to continue the use of capital receipts in this way and in particular to support the Future Operating Model transformation programme to deliver further efficiencies within the council. This will be subject to further separate reports to the Cabinet as plans are made for this programme.

1.12 The MTFS is included at Annex A to this report and sets out the financial forecast for the Council.

2. RISK MANAGEMENT ISSUES

2.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The Council does not remain up to date up to date with changes in legislation and other developments.	High	Low	Financial Services are keeping abreast of finance changes. Heads of Service to keep up to date with / communicate changes to their areas of work.
Assumptions may be inaccurate	High	Medium	Budget monitoring process is up to date and a close eye is being kept on financial developments nationally. Assumptions are constantly reviewed and amended in light of information received.
Local Government Finance Settlement is worse than anticipated.	High	Medium	Realistic assumptions have already been included and any new information is being assessed as to its likely impact. Reduction in grant funding reduces external impact.
MTFS becomes out of date	High	Low	This is reviewed annually through the budget process.
Significant financial shocks worsen the current position of the council	High	Medium	There is ongoing monitoring of the overall financial position and climate and by adopting the MTFS

			a longer term time horizon is maintained to anticipate and respond to uncertain events..
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3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (DK)

There are no legal implications arising out of this report.

3.2 Finance Officer's Comments (TM)

There are no direct financial consequences arising from this report. However the strategy will influence the management of the council's resources ensuring that the focus is on the objectives and targets outlined in the corporate plan.

3.3 Diversity and Equalities Implications (TM)

There are no diversity and equality implications arising from this document. When the budget for 2017/18 is prepared, an Equalities Impact Assessment will be completed.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors 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:

Medium Term Financial Strategy 2018/19 – 2021/22