**Briefing note on the General Fund Medium Term Financial Plan Refresh**

**To Cross Party Working Group**

**From Nigel Kennedy, Head of Financial Services**

**Date 29th September 2015**

**Introduction**

At Council on 18th February 2015 Members approved the Budget for 2015-16 and Medium Term Financial Plan for 2016-17 to 2018-19. The summary figures were as follows :

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| **Table 1 : General Fund Medium Term Financial Plan at February 2015** |
|   | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|   | £000’s | £000’s | £000’s | £000’s |
| Net expenditure | 23,304 | 21,611 | 20,501 | 20,077 |
| Income |   |   |   |   |
| Council Tax | (12,187) | (12,141) | (12,385) | (12,696) |
| Business Rates | (6,654) | (6,515) | (6,638) | (7,381) |
| RSG | (4,463) | (2,955) | (1,478) |   |
| Total Income | (23,304) | (21,611) | (20,501) | (20,077) |
|   |   |   |   |   |
| Deficit | 0 | 0 | 0 | 0 |

Key assumptions include:

* Nil New Homes Bonus with effect from 1st April 2018
* RSG is zero from 1st April 2018, the Homelessness grant and Council Tax Reduction scheme funding received with in this, are also reducing to zero in 2018/19, however the related expenditure to these elements of the grant are still being budgeted for.
* Council tax increases of 1.99% in 2015/16 and 1.5% thereafter
* Revenue contributions to capital of £4.8 million in 2015/16, £6.2 million in 2016/17, £5.3 million in 2017/18 and £1.7 million in 2018/19
* No additional borrowing to fund capital expenditure
* Investment interest rates used were 1.8% / 2.3% / 2.5% / 2.75% for the four years from 15/16 (including property fund investments)
* Estimate of £400k included for changes to National Insurance from 2016/17, which is the removal of the 3.4% contracted out scheme rebate, further work on this estimate will be required once the new establishments have been finalised.
* Pay awards at 1.5% throughout the plan although the final year of the 5 year pay deal made with the unions ends on 1st April 2018.

Since the preparation of the initial plan there have been a number of variations which have come to light which will have a significant effect on the net position. The main variations are shown :

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| **Table 2 MTFP Latest refresh from approved MTFP** |
|  | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|  | £000’s | £000’s | £000’s | £000’s |
| **2015/16 Deficit** | **0** | **0** | **0** | **0** |
|  |  |  |  |  |
| **Latest Changes** |  |  |  |  |
| Business Rates changes | 1,955 | 424 | 336 | 334 |
| New Homes Bonus | (135) | (256) |  |  |
| Removal of 2015-16 contingency | (458) | (458) | (458) | (458) |
| Recyclates | 1,000 | 750 | 750 | 750 |
| MRP Reductions | (427) | (427) | (427) | (427) |
|  |  |  |  |  |
| **Revised MTFP Balance** | **1,935** | **33** | **201** | **2,927** |

Key Variations since the original MTFP:

* Additional revenue contributions to finance vehicle purchase, additional pay inflation and variations in one off savings
* Business rates appeals – effect of appeals lodged
* Business Rates collection fund deficit arising from appeal lodged in 2014/15
* Reduced contingency re efficiencies achieved in 2014-15 (£458k)
* Recyclate increased cost - the City Council currently uses a recycling facility at Enstone operated by an external contractor. Due to variations in prices paid for recyclate the operation is no longer financially viable. On the 10th September 2015 City Executive Board gave delegated authority to the Executive Director of Community Services to accept tenders up to £1 million for the provision of a waste transfer station and collection and subsequent treatment of dry recyclate. The recent acceptance of tenders from two companies results in a pressure of £1million in a full year. The Council is looking at the feasibility if operating its own transfer station which would reduce costs in future years.
* Reductions in Minimum Revenue Provision through not borrowing to fund capital in 2014/15
* Revised New Homes Bonus figures based on the actuals received in 2015/16

**Business Rates**

A new Business Rates valuation list is due to be issued in 2017. Any business rates projections from this point are subject to a high degree of uncertainty because the effect of the revaluation is completely unknown. The Valuation Office is not able to release any information about the possible effects. All estimates, including of the new Westgate Centre, are based on existing rateable values. There is likely to be an increase in rateable values relating to this although at this stage the amount is unknown, and the effect of this will start in 2018/19.

**Emergency Budget**

The Conservative Government, at its Emergency Budget on the 8th July, advised of a further £12 billion cuts from the national welfare bill with the reduction of the benefit cap to £20,000 per household a major part of the policy. This is likely to increase pressure around council tax, rents, DHP allowances and ultimately homelessness. In an additional announcement following the budget the Chancellor announced cuts in unprotected Government Services (including local Government) of between 25% and 40% means that the pressure to resolve the countries budget deficit continues

The summer budget also announced a

* 1% decrease in Housing rents for the next four years,
* The forced sale of expensive properties when becoming void
* The raising of rents to market rents for families earning in excess of £30k per annum with the subsequent additional income being paid to the Government

It is estimated that the effect of these changes Housing Revenue Account Business Plan, will be around £130m reduction in income over the next 10 years and around £36 million over the next four years as shown in table 4 below. The detailed implications on the existing HRA Business Plan are currently being assessed but it is expected that there will be significant implications for the whole council.

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| **Table 4 :Annual Loss of Income 2016-17 – 2019/20** |
|  | 2016/17 | 2017/18 | 2018/19 | 2019/20 | **Total** |
|  | £’000 | £’000 | £’000 | £’000 | **£’000** |
| Rent (1% reduction) | 3,105 | 6,235 | 9,220 | 12,405 | **30,965** |
| Pay to Stay | 14 | 40 | 66 | 92 | **212** |
| HVCH Sales | 284 | 843 | 1,391 | 1,928 | **4,446** |
|  |  |  |  |  |  |
| **Total** | **3,403** | **7,118** | **10,677** | **14,425** | **35,623** |
|  |  |  |  |  |  |
| **Saving as percentage of revenue spend (%)** | **7.9** | **15.1** | **21.4** | **27.6** | **18.6** |
| **Saving as percentage of revenue spend (%)** | **10.5** | **19.80** | **47.3** | **57.90** | **30.8** |

**Overall position**

The initial refresh of the Councils General Fund Medium Term Financial Plan for the three years ending 31st March 2019 indicates deterioration from that approved by Council on 18th February 2015 of around £2.17 million. The fourth year of the new plan 2019/20 adds another £2.9 million of pressures. Whilst a change in assumptions around New Homes Bonus and potential Government Grant would improve this position in the absence of further detailed information which is unlikely to be issued by Government until the Comprehensive Spending Review on 25th November 2015 there does not seem any grounds to change the assumptions made in the existing plan. Any additional grant that is received after 2018 could be used to fund one-off initiatives in the Councils budget.

The Councils position on HRA is still being evaluated and there are still parts of the Governments announcements that are yet to be clarified, but there is a strong possibility that this will have a material effect on the future Housing Investment aspirations as well as implications for the Council’s General Fund.

Officers are currently in the middle of budget preparation in accordance with a timetable for the Council to approve its budget plans in February 2016. The current budget being worked on, will review all efficiencies, income streams and pressures over the four year planning period as well as examine a number of larger initiatives aimed at bridging the gap.