Agenda Item No:	6	
Committee:	Overview and Scrutiny Panel	
Date:	16 January 2017	
Report Title:	Draft Medium Term Financial Strategy and General Fund Budget 2017/18	

Cover sheet:

1 Purpose / Summary

To consider and make any appropriate recommendations to Cabinet on:-

- the draft Medium Term Financial Strategy, General Fund Budget 2017/18 and Capital Programme 2017-2020 for consultation;
- the revised General Fund Budget and Capital Programme for 2016/17.

2 Key issues

- The provisional Local Government Finance Settlement for 2017/18 was announced on the 15 December 2016 and as expected reduces the Council's Settlement Funding Assessment (government general grant plus business rates baseline funding). The announcement confirmed a reduction of 14% (£704k) for 2017/18.
- Further reductions were provisionally announced for 2018/19 and 2019/20 (in line with indicative figures announced last year), with an inflationary increase assumed for 2020/21. **Consequently, until more details for future years have been received and the reforms to the Business Rates Retention system implemented, the figures for those years detailed in this report should be treated with caution.**
- The Council has been notified that it is now formally on the multi-year settlement announced last year. The provisional settlement figures announced in December 2016 confirmed the principle of the multi-year settlement and were consistent with the indicative figures announced last year.
- It is proposed that Council Tax will increase by 1.98% in 2017/18 and over the medium term.
- Referendum limits have been announced at 2% for District Councils (or £5 if you have lowest quartile council tax levels).
- All of the original savings target of £601,000 for 2017/18 has been achieved or identified to date. In addition, taking into account proposed FDC-CSR savings, all of the savings target for 2018/19 has been identified.
- For the period 2019/20 – 2020/21(this MTFS adds an additional year) savings of around £231k will be required, subject to the detailed outcome of future Finance Settlement announcements and the impact of reforms to the Business Rates Retention system. Consequently, forecasts for these years should be treated with caution.

- Although the outcome of the review of the New Homes Bonus has significantly reduced future year's allocations (for 2017/18 this is £455k less than the December Cabinet report), these have been off-set by changes resulting from the Business Rates revaluation exercise. The net impact on the Medium Term Forecasts is a £6k reduction in the cumulative savings target by 2020/21, compared with the December Cabinet report.
- Although there has been real business rates growth in the district during the last three years which have provided additional resources, business rates are volatile and can be subject to significant in-year variations.
- Revised estimates for 2016/17 are projecting an under-spend of £500,000. This is mainly the result of one-off items as detailed in paragraph 5.5. This is also consistent with the Key Budgetary Control Information reports received by members during this year.
- Proposals to transfer the projected under-spend in 2016/17 to The Pilots' National Pension Fund reserve to provide funding towards the pending liability incurred as a result of triggering the S75 debt.
- An updated Capital Programme for 2016/17 and for the medium term 2017-20 is proposed.
- The Fenland Comprehensive Spending Review is ongoing and will help identify and deliver projects to meet the savings challenge over the period of the Medium Term Financial Strategy.
- Given the scale of the challenges faced by the Council, the financial forecasts represent a considerable achievement and demonstrates the focus from Members and Officers throughout the Council in delivering the required savings.
- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.
- The Autumn Statement was announced on 23 November 2016 and the Local Government Finance Settlement for 2017/18 was announced on 15 December 2016.

3 Recommendations

- It is recommended that Members consider and make any appropriate recommendations to Cabinet on:-

  (i) the draft budget proposals for 2017/18 outlined in this repot;

  (ii) the revised estimates for 2016/17;

  (iii) the projected under-spend for 2016/17 as detailed in paragraph 5 be transferred to The Pilots' National Pension Fund reserve;

  (iv) the revised capital programme.

Wards Affected	All
Portfolio Holder(s)	Cllr John Clark, Leader Cllr Chris Seaton, Portfolio Holder, Finance
Report Originator(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Provisional Finance settlement – Department for Communities and Local Government (DCLG). Autumn Statement 2016 (HM Treasury) Medium Term Financial Forecasts working papers. Government announcements since February 2016.

Report:

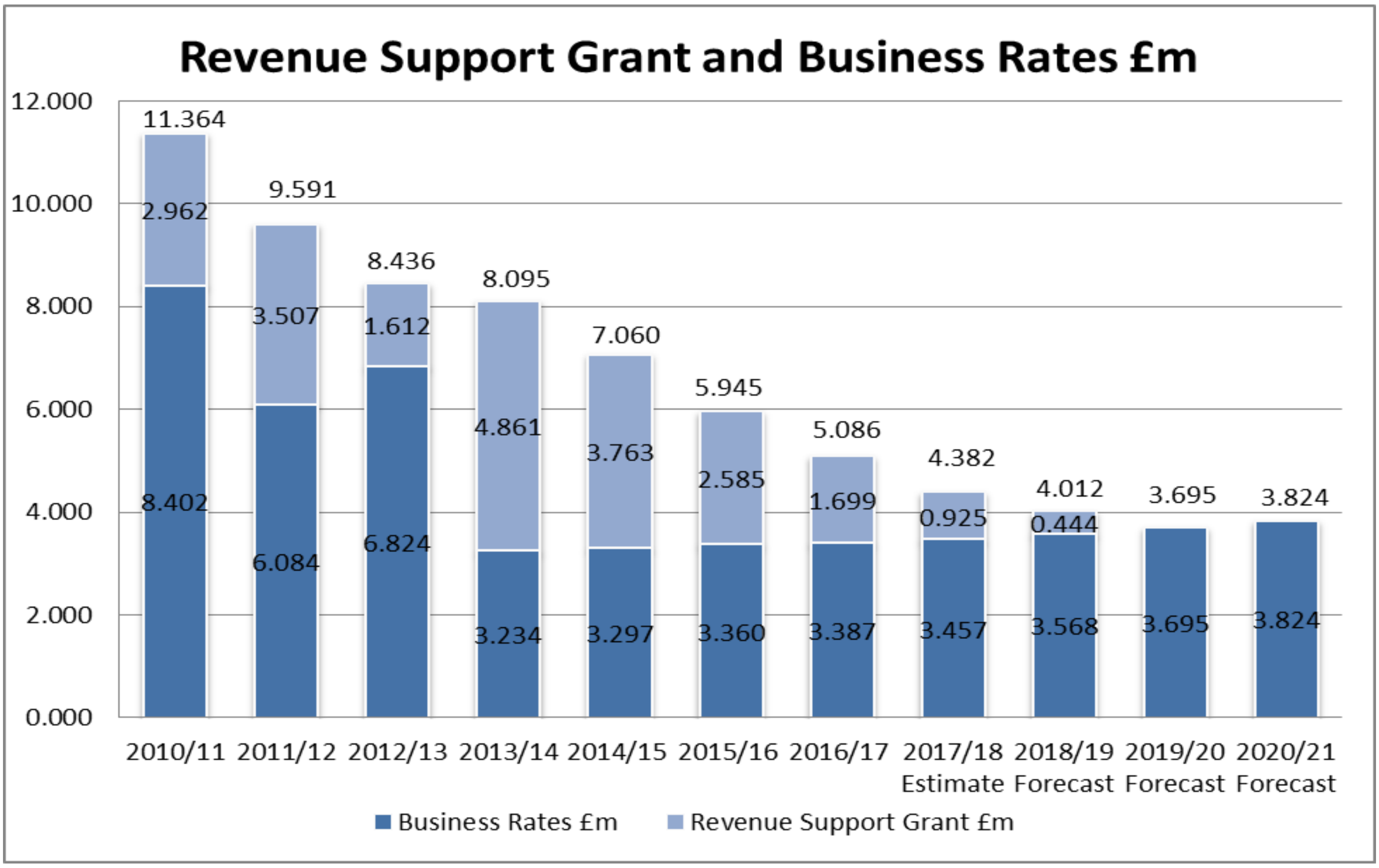
4 Introduction

4.1 This report sets out the financial implications of the council's priorities described in the draft Business Plan 2017/18. Revenue estimates are draft at this stage and along with the draft Business Plan will be subject to public and stakeholder consultation prior to final budget and council tax levels for 2017/18 being set in February 2017.

4.2 Much of the financial information provided is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. Some of these factors, such as the final level of external grant support, the impact of the business rates revaluation and the level of Government set fees, will not be known until later in the process and any amendments will be reported to Cabinet and Council at the February 2017 budget meeting.

4.3 In addition, the Local Government Finance Settlement for 2017/18, the Autumn Statement 2016 (see paragraph 6 below) and the continuing challenging economic climate means the Council needs to produce a robust strategy for the future to meet these challenges.

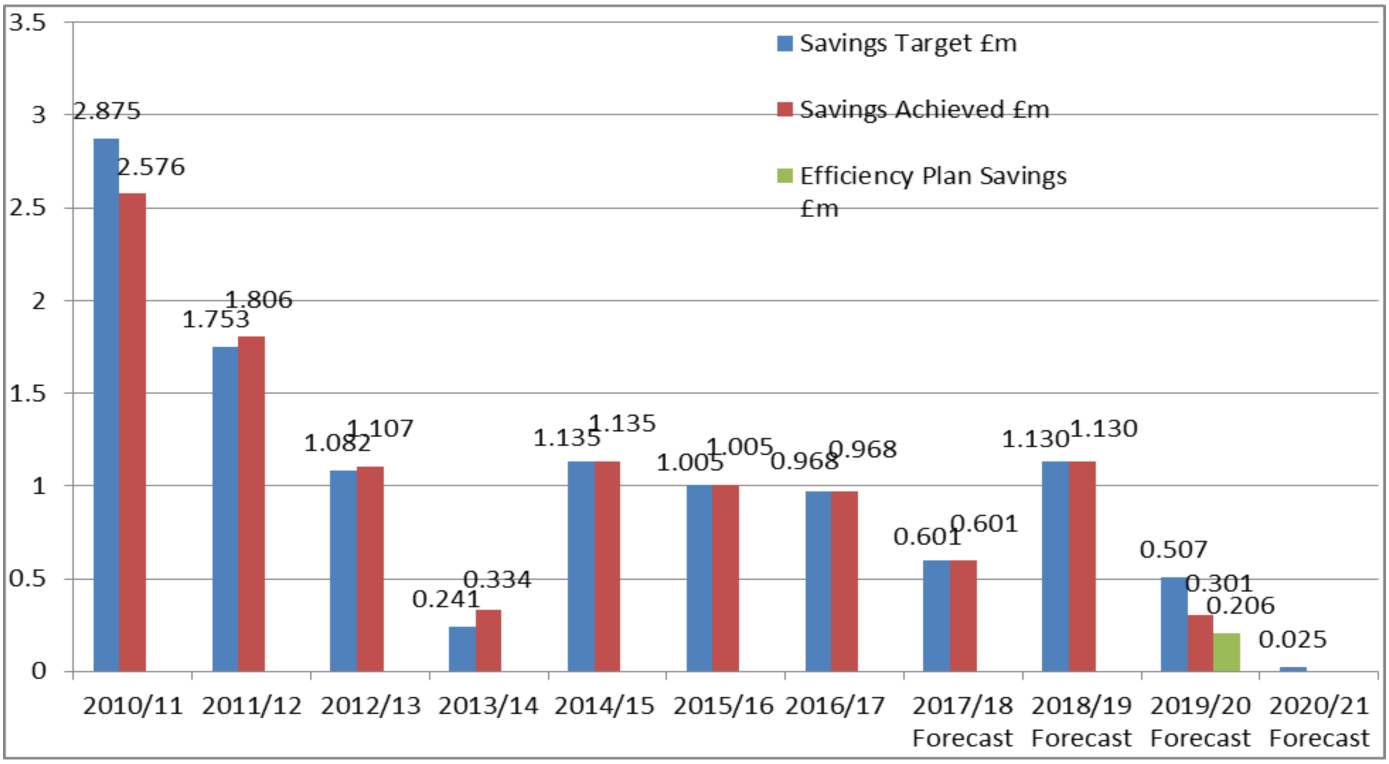
4.4 Local Government has been at the forefront of the austerity measures introduced by the government following the General Election in 2010, to reduce the national deficit. This Council has seen significant grant reductions since 2010 and by the end of 2016/17 we will have delivered around £9m of savings. This is exemplified in the graphs below:



(Note: The new Business Rates Retention system was introduced in 2013/14. Prior to that, the government used a different formula to calculate the allocation of business rates. Consequently, the split between business rates and RSG for these years could vary considerably between years, although the overall allocation reduced significantly. Since 2013/14, the graph shows the continuing trend of reducing RSG, within an overall reduced funding allocation, until it is phased out completely in 2019/20 with the introduction of 100% business rates retention).

Revenue Support Grant (RSG) and Business Rates will have reduced by 61% between 2010/11 and 2017/18, with forecast reductions of 8% in 2018/19 and a further 8% reduction in 2019/20 as RSG is reduced to zero as part of the government's strategy for local government to keep 100% of business rates revenues by the end of this Parliament.

The following graph illustrates how successful the Council has been in delivering the required savings targets over the last 7 years. With the exception of 2010/11, where as a result of the emergency budget following the general election, substantial reductions in government grants were announced in year (this Council's savings target increased by £1.525m in the year, of which £1.226m was achieved, a significant achievement), the savings targets have been met in every year.



The above table effectively shows that the previously required savings over the period to 2019/20 have either been achieved or identified, consistent with the proposals within the FDC-CSR process and the Council's approved Efficiency Plan.

During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council are in a good position to meet the challenges of 2017/18 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

5 Projected Outturn 2016/17

5.1 As part of the budget setting process for 2016/17, approved by Council on 25 February 2016, £0.968m of savings were required in order to achieve a balanced budget.

5.2 As reported during the course of this year through the monthly monitoring reports to all Members and at previous Cabinet meetings, the required savings for 2016/17 have been identified and implemented. In addition, all the required savings for 2017/18 have also been identified.

5.3 Organisational efficiency changes (eg. Customer Access), Shared Service arrangements (Planning, Payroll and Internal Audit arrangements) and additional income (higher retained business rates and higher surplus on Council Tax collection fund) have enabled the savings target to be met for this year with significant contributions towards the savings target for 2017/18.

5.4 Given the size of savings required, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.

5.5 The latest revised estimates for 2016/17 are set out at Appendix A for approval. The current estimate for net expenditure is £11.5m, which means that there is forecast to be a surplus of £500k by the end of this year. This is mainly a result of lower employee costs due to vacancies (£170k), higher fees and charges from services eg. Planning, Trade Refuse and Leisure (£186k) and higher receipts from the RTB/VAT sharing arrangement with Roddons (£140k). The forecast surplus has arisen due to the above mainly one-off adjustments which could not have been predicted when the budget was set. In addition, the level of the projected surplus could change between now and the end of the year due to the volatility of some income streams.

5.6 At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, this position is maintained at the year end.

Pilots' National Pension Fund (PNPF)

5.7 Members will be aware of the Council's current and potential future liability to The Pilots' National Pension Fund. Last month, the Council effectively triggered a 'cessation event' with the PNPF, which means we no longer have any active members in the fund, or are likely to have in the near future. Consequently, this will result in a lump sum being due to the PNPF as a result of the statutory S75 debt calculation together with a payment due in accordance with fund rules. Previous estimates of this lump sum were around £2.5 million and we are currently awaiting confirmation of the actual sum due. Officers are currently in discussions with the PNPF regarding payment options for the lump sum and will be seeking the most financially advantageous arrangement for the Council.

5.8 Irrespective of how the Council repays the lump sum, we will need to recognise the full amount in the 2016/17 accounts which means the current projected surplus will show as a deficit in the final accounts for this year. This will be a one-off adjustment in this year and we will need to ensure we have the required resources to be able to fund this deficit at the year-end. Currently, there is £1.651 million set-aside in the Pilots' National Pension Fund Reserve and it is proposed that the forecast £500k 'underspend' in 2016/17 detailed in Appendix A be transferred to this reserve, making a total of £2.151 million set-aside for the impending liability.

5.9 Officers are also in discussion with DCLG regarding a potential 'capitalisation directive' which would effectively allow the Council to borrow to fund the lump sum due. Borrowing to fund revenue expenditure is not normally allowed, however, in exceptional circumstances, where the expenditure would put the authority in significant financial difficulties, DCLG in conjunction with HM Treasury can give approval.

5.10 If a 'capitalisation directive' is not forthcoming, the Council will need to fund the difference between the lump sum due and what has been set-aside in the PNPF reserve from other earmarked reserves at the year-end. The Council is currently paying around £90,000 per annum to the PNPF as its' deficit contribution and as this amount would not be required in future years, it would be available to either replenish any reserves used to fund the balance of the lump sum or be available to fund any borrowing resulting from a 'capitalisation directive' if approved.

5.11 As a result of the above, the General Fund Balance is forecast to remain at £2.394m at the end of 2016/17.

6 Autumn Statement 2016

6.1 The Autumn Statement on 23 November 2016 reaffirmed the government department spending plans set out in Spending Review 2015 covering the period to 2019/20. Departmental revenue spending will continue to grow with inflation in 2020/21, as set out in Budget 2016. Departmental spending will also grow with inflation in 2021/22. Individual departmental spending limits up to 2019/20 were set out in the Spending Review and Autumn Statement 2015. Detailed information for subsequent years will be set out in a future spending review.

6.2 Consequently, there was little in the statement which had a direct impact on this Council over the medium term, which hadn't been announced in previous statements. Announcements regarding the impact of business rates revaluation and New Homes Bonus will be made as part of the Provisional Local Government Finance Settlement.

6.3 Although not specifically mentioned in the statement, it is clear from previous government announcements that funding Adult Social Care is seen as a high priority. This includes allowing local authorities who are responsible for social care the ability to raise council tax by up to 2% per year (there is now flexibility to increase by up to 3%, although the cumulative increase over three years cannot exceed 6%), above the existing referendum threshold, to spend exclusively on adult social care. In addition, the government has consulted on the transfer of £800 million from the New Homes Bonus funding to social care (predominately from 2018/19 onwards) and the outcome of that consultation was announced with the Provisional Finance Settlement. As a result of the well-publicised funding crisis in Adult Social Care, the government has brought forward the transfer of funds from the NHB to 2017/18 (£240m), with a consequential impact on this Council's resources.

7 Fenland Comprehensive Spending Review

7.1 In July 2015, the Council voted to establish a Fenland District Council Comprehensive Spending Review (FDC-CSR) in light of the significant further savings of approximately £1.8 million the Council would have to find from 2016-19. This savings target was subsequently increased to £2.133m covering the period 2017-20.

7.2 FDC-CSR means the Council will be looking at everything we do to assess all of the options available to make savings and generate income to ensure we meet our savings targets and remain a sustainable organisation in to the future.

7.3 In November 2015, Councillors received a pack of information outlining the range of options available and were tasked with indicating their preferences of which options should be worked up into full business cases for delivery, if viable. Members completed this process by December 2015 and convened to confirm their priorities in January 2016. These were included in the 2016/17 Business Plan and Budget, approved by Council in February 2016.

7.4 The total estimated savings generated from these proposals is £1.667m. During this year, Members have received detailed business cases on several proposals which are now progressing. These include the following:

- Community House external funding
- Ceasing YDC
- Garden Waste charging

- Leisure Centre management options
- Contact Centre review
- Internal Audit Partnership
- New Horizons Bus
- Local Council Tax Support Grant to Parish Councils withdrawn

7.5 The savings generated form these and other CSR proposals are included within the Medium Term Forecasts detailed at Appendix B and have significantly contributed to a forecast ‘balanced budget’ for the next two years.

8 Efficiency Plan

8.1 At the time of the announcement of the 2016/17 Finance Settlement in February 2016, the government also announced multi-year settlement figures (up to and including 2019/20), which it invited local authorities to accept upon publication of an Efficiency Plan. The offer covered the Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant where appropriate. In addition, tariffs and top-ups (part of the Business Rates Retention system) for the period 2017/18 – 2019/20 would not be altered for reasons related to relative needs of local authorities and in the final year may be subject to the implementation of 100% Business Rates Retention.

8.2 This Council decided to accept the multi-year settlement offer (Cabinet 15 September 2016), published its’ Efficiency Plan and sent it to DCLG to meet the deadline of 14 October 2016. On 16 November 2016, DCLG formally notified the Council that it is now on the multi-year settlement and we can expect to receive the allocations published as part of the 2016/17 local government finance settlement in 2017/18, 2018/19 and 2019/20. This results in RSG being withdrawn completely in 2019/20. 97% of councils have applied to be on the multi-year settlement.

8.3 The Council’s published Efficiency Plan details how the estimated savings over the period to 2019/20 would be achieved through a combination of the FDC Comprehensive Spending Review, additional resources from Council Tax (higher tax-base through dwelling growth and less Council Tax Support awarded) and Business Rates (higher receipts from growth and initiatives such as HM Treasury deal) together with targeted use of reserves and balances.

8.4 The current Medium Term forecasts detailed at Appendix B reinforce the Efficiency Plan objectives to achieve a break-even position over the period to 2019/20 with a small savings requirement in 2020/21.

9 Local Government Finance Settlement

9.1 The Provisional Finance Settlement for 2017/18 was announced on 15 December 2016. The Provisional Settlement set out the Settlement Funding Assessment for 2017/18 and indicative allocations of funding up to 2019/20. For 2020/21, an inflationary increase has been assumed in line with the Autumn Statement announcement on overall government departmental spending totals.

9.2 The Settlement Funding Assessment for 2017/18 included in the draft budget is detailed below. This is consistent with the Council accepting the multi-year settlement offered last year (as detailed in paragraph 8 above).

Table 1 – Provisional Settlement Funding Assessment – December 2016

	Actual 2016/17 £000	Estimate 2017/18 £000	2017/18 % Reduction
Revenue Support Grant	1,699	925	
Business Rates Baseline Funding	3,387	3,457	
Settlement Funding Assessment	**5,086**	**4,382**	**-13.84%**

9.3 The multi-year settlement announced last year, will result in RSG disappearing by 2019/20 with the Business Rates Baseline Funding increasing by inflation. The Medium Term Forecasts detailed in Appendix B exemplify this position by reducing the overall Settlement Funding Assessment by 14% in 2017/18, 8% in 2018/19, 8% in 2019/20 with an inflationary increase in 2020/21. These are consistent with the forecasts in February 2016.

9.4 This phasing out of Revenue Support Grant (RSG) could be partly compensated by the announcement that local authorities will keep 100% of business rates income by 2020/21 (currently 50% - Fenland 40%, County Council 9% and Fire Authority 1%). However, this has not been modelled in the medium term forecasts, as there is no guarantee that additional resources will be forthcoming to District Councils from whatever distribution mechanism will be in place for business rates.

10 New Homes Bonus

10.1 Following the government's consultation, during March 2016, on changes to the New Homes Bonus (NHB), details of the new allocation mechanism was announced with the Provisional Finance Settlement in December 2016.

10.2 The reforms key focus is to reduce the payments from 6 years to 5 years in 2017/18 and 4 years from 2018/19. In addition, from 2017/18 a national baseline for housing growth of 0.4% has been introduced, below which New Homes Bonus will not be paid, reflecting a percentage of housing that would have been built anyway. The Government will retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth.

10.3 Actual and forecast NHB allocations, based on the current system, but also including an overall estimated reduction based on the above reforms (based on exemplifications provided as part of the multi-year settlement figures), which are included in the medium term forecasts are as follows:

Table 2: New Homes Bonus Illustration – Based on current allocation methodology, reduced based on the proposed reforms

		Financial Year of Payment									
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Year of Delivery	Yr 1 (Oct 2009-10)	290	290	290	290	290	290				
	Yr 2 (Oct 2010-11)		323	323	323	323	323	323			
	Yr 3 (Oct 2011-12)			247	247	247	247	247	247		
	Yr 4 (Oct 2012-13)				356	356	356	356	356	356	
	Yr 5 (Oct 2013-14)					347	347	347	347	347	347
	Yr 6 (Oct 2014-15)						479	479	479	479	479
	Yr 7 (Oct 2015-16)							393	393	393	393
	Yr 8 (Oct 2016-17)								350	350	350
	Yr 9 (Oct 2017-18)									350	350
	Yr 10 (Oct 2018-19)										350
	Total NHB allocation (current method)	**290**	**613**	**860**	**1,216**	**1,563**	**2,042**	**2,145**	**2,172**	**2,275**	**2,269**
	NHB Reforms estimated impact							**-496**	**-911**	**-1,065**	**-1,059**
	Revised NHB allocations	**290**	**613**	**860**	**1,216**	**1,563**	**2,042**	**1,649**	**1,338**	**1,210**	**1,210**

10.4 New Homes Bonus allocations for 2017/18 were announced as part of the Provisional Finance Settlement in December 2016. The reductions in future years are estimated at this stage based on the proposed reforms and illustrative figures announced as part of the Provisional Settlement. For 2017/18, the actual allocation is £455k less than the December Cabinet report. However, this has been off-set by changes resulting from the Business Rates revaluation exercise and the inclusion of a vacancy factor in the 2017/18 estimates.

11 Business Rates

11.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.

11.2 There has been real business rates growth in Fenland over the last three years, however how this impacts on the resources available to this Council is complex, due to the rules surrounding the Business Rates Retention system.

11.3 Additional business rates growth over and above the Baseline Funding level results in a levy payable to the government equivalent to 50% of this growth amount. This amount is payable to the government in the financial year to which it relates. However, this Council's share of growth together with calculations for bad debts and appeals provision is included in the Business Rates Collection Fund for the year and any surplus on the

Collection Fund at the year end, is then available to the Council in the following financial year.

11.4 In addition, the government announced various measures which reduced the amount of business rates receivable over the period 2014/15 - 2016/17 - capping increases to 2% and a series of 'reliefs'. However, authorities are being compensated by the government through a separate grant payment for any loss of business rate income resulting from these measures.

11.5 This Council is also part of a pilot scheme agreed between the Treasury and Cambridgeshire and Peterborough Councils, whereby the authorities will keep 100% of business rates generated above forecast levels (currently shared 50/50 with Central Government). This trial began in 2015/16 and the Council received an additional £319k of business rates in that year as a result of the pilot scheme. For the period 2016/17 onwards, we are forecasting around £203k of additional business rates per annum. We are awaiting further information regarding how this pilot scheme interacts with the government's announcement on authorities keeping 100% of business rates income by 2019/20. For the purposes of this report, it has been assumed that the trial will continue as originally agreed and the forecast additional rates income has been included in the medium term forecasts.

11.6 All of the above interact with each other producing a very complex assessment of the impact on the Council's resources. Although the Treasury deal is good news for the Councils involved, other factors within the overall business rates income projections result in an overall deficit being projected on the collection fund at the end of 2016/17. This is a result of a significant increase in the appeals provision being required due to a Valuation Tribunal decision regarding purpose built doctors surgeries, which has significantly reduced their rateable values (backdated to 1 April 2010). The amount of backdated refunds resulting from these appeals amounted to around £1.3 million and reduced the overall business RV by £575k. This means we will be collecting around £286k less rates income per annum in the future. This demonstrates the volatility within any forecast of future business rates income. The projected deficit on the collection fund in 2016/17 (£230k) is carried forward and is a cost within the 2017/18 estimates. This Council's share of the deficit (40%) is estimated at around £92k.

Business Rates Revaluation – April 2017

11.7 The draft revaluation list was published in October 2016. This showed that overall, the total increase in Business Rateable Value was 1.8%. However, as with all revaluations, the Business Rate multiplier will be adjusted by government in order for the changes to be fiscally neutral nationwide. The multiplier will be reduced by 3.5%.

11.8 Although the revaluation exercise is notionally fiscally neutral, the impact on individual authorities will vary and therefore another adjustment will be made to authorities top ups and tariffs. However, due to the complexities within the whole system, it is almost inevitable that there will be winners and losers across the country.

11.9 Taking all of the above into consideration, the total forecast income from business rates for 2017/18 is expected to be around £59k higher than forecast for 2016/17 with total income then rising with inflation from 2018/19 onwards.

11.10 Should the actual impact of the revaluation be greater than included in the Medium Term Forecasts, then the use of the Local Government Resource Reserve (balance £500k) may be required to smooth out the impact over the medium term.

100% Business Rates Retention

11.11 During the summer of 2016, a consultation was carried on initial principles for local authorities to retain 100% of business rates in their area. The proposals will include a way of distributing funds fairly across the country (through the top up and tariff regime) and also suggests new responsibilities will be passed on to councils in return for keeping 100% of the business rates.

11.12 The proposals are being developed by a National Steering Group and four national sub-groups:- Roles and Responsibilities; System Design; Needs and Accounting and Accountability.

11.13 The government received nearly 700 responses to the consultation and the key points to be determined relate to new responsibilities, changes to the two tier split, appeals, how often to reset the system, impact of needs balanced against growth and the proposal for no levy. A further technical consultation and subsequent legislation will be issued in 2017.

11.14 The effect of this new system on Fenland District Council is unknown at this stage and therefore no adjustments have been made to the business rates funding within the MTFS. It is proposed that the new system will be in place by the end of this parliament but there is still uncertainty whether this will be 2019/20 or 2020/21.

11.15 The ongoing impact of the Business Rates Revaluation, the introduction of 100% Business Rates Retention and the reforms to the New Homes Bonus are the major risk areas for this Council over the medium term.

12 Devolution

12.1 Following the decision by all local Councils and the local LEP to vote to progress a devolution deal for Cambridgeshire and Peterborough a Shadow Combined Authority has been formed to take forward the process.

12.2 The Government will now seek to establish in law the basis on which to create an Elected Mayor and Combined Authority for Cambridgeshire and Peterborough. There will also be an election for the Elected Mayor of the Combined Authority in May 2017.

12.3 As detailed in the Council report on 17 November 2016, the running costs of the Mayor’s Office and the Combined Authority will come at no cost to local councils. It will be paid for out of the new funding from government already set out in the devolution deal. Consequently, no specific funding for these costs are included in the budget for 2017/18 and the medium term forecasts.

12.4 It is anticipated that for each £1 spent to run the Mayoral Combined Authority for the next five years, the devolution deal will generate new funding of at least £45 to be invested in Cambridgeshire and Peterborough mainly on housing and improved infrastructure. The full details of the devolution deal are contained in various reports and member briefings over the last six months.

13 Draft Budget 2017/18 and Medium Term Strategy

13.1 The Council’s Medium Term Financial Strategy (MTFS) ensures that the commitments made in the Business Plan are funded not only in the year for which the formal approval of the budget is required (2017/18) but for forecast years as well, within a reasonable level of tolerance.

13.2 For the purposes of this report, the following table exemplifies the impact of an indicative 1.98% Council Tax increase per annum from 2017/18.

Table 3 - Medium Term Forecast - 1.98% CT increase in 2017/18 onwards

		Subject to Spending Review		
	Estimate 2017/18 £000	**Forecast 2018/19 £000**	**Forecast 2019/20 £000**	**Forecast 2020/21 £000**
Council Tax-base	*28,397*	*28,682*	*28,972*	*29,272*
Assumed Council Tax increase	1.98%	1.98%	1.98%	1.98%
Resources (Income)				
Revenue Support Grant	925	444	0	0
Business Rates Baseline	3,457	3,568	3,695	3,824
	4,382	**4,012**	**3,695**	**3,824**
Council Tax	**7,254**	**7,471**	**7,696**	**7,930**
CT Collection Fund surplus	**134**			
BR Collection Fund deficit	**-92**			
Total Resources	**11,678**	**11,483**	**11,391**	**11,754**
Forecast Net Expenditure	**11,678**	**12,363**	**12,502**	**12,890**
Original Savings Target	*601*			
Savings achieved to date (included above)	*-601*			
Savings identified but not yet implemented:				
Savings identified 2018/19		-880	-880	-880
Savings identified 2019/20			-25	-25
Forecast Expenditure after identified savings	**11,678**	**11,483**	**11,597**	**11,985**
Cumulative Funding Gap	**0**	**0**	**206**	**231**
Approved Efficiency Plan savings			*-206*	*-206*
Funding Gap – In Year *(after Efficiency Plan savings)*		**0**	**0**	**25**
Forecast General Fund Balance	2,394	2,394	2,394	2,394

13.3 Government grant figures for 2017/18 were announced as part of the provisional finance settlement. Indicative figures for 2018/19 - 2019/20 were also announced at the same time and are consistent with the multi-year settlement figures announced last year (as detailed in paragraph 5 above). The forecast for 2020/21 is consistent with spending announcements in the Autumn Statement 2016.

13.4 Within the government grant (Settlement Funding Assessment) figures for these years, the Business Rates Baseline Funding element is assumed to increase annually by RPI, whereas the Revenue Support Grant element is reduced to zero by 2019/20 in line with government announcements. This combines to produce an assumed overall reduction of 14% in 2017/18; 8% in 2018/19 and 8% reduction in 2019/20. Figures for 2020/21 assume an inflationary increase in line with the Autumn Statement 2016 announcements regarding overall government department revenue spending.

13.5 This will mean that in 2019/20, the Council will no longer receive any Revenue Support Grant. In order for Councils to continue to contribute to the financial austerity measures of Central Government, it has been proposed that an additional tariff adjustment is applied to councils who no longer receive Revenue Support Grant. This is forecast to be £94,000 for Fenland in 2019/20 and is included in the overall business rates income for that year. However this could change, pending the outcome of the consultation on 100% business rates retention during 2016.

13.6 No further increases in Business Rates have been included at this stage to reflect the move to 100% retention as there is no information available regarding the future distribution model to be used and what impact the government's re-balancing of the available funding towards social care and upper tier authorities will have on districts generally and this Council in particular.

13.7 The level of net expenditure for 2017/18 is currently estimated to be £11.678 million after all identified savings are included. This includes the assumptions detailed at para. 13.16 below.

13.8 The forecasts include all proposed savings from the FDC-CSR process over the next three years together with assumptions regarding additional receipts from Council Tax and Business Rates as detailed in paragraph 5 above. These formed part of the Council's published Efficiency Plan which identified how the previously forecast savings of £2.133 million over the period 2017/8 – 2019/20 (Budget report in February 2016) would be achieved.

13.9 Taking these into account, the forecasts now show a funding gap of £231k to the end of 2020/21. Part of the Efficiency Plan strategy to balance the budget over the medium term was the targeted use of reserves and balances and this relatively small forecast funding gap could be funded from balances unless further revenue savings are identified in future years.

13.10 The forecasts are based on a proposed 1.98% Council Tax increase in 2016/17 and over the medium term. A Council Tax freeze in 2017/18 would increase the savings required over the medium term by an additional £589,000.

13.11 The current strategy is not to use the general fund balance to fund the projected deficits in future years. This will ensure the balance is kept above the target minimum level of £2m. However, due to the uncertainties relating to future resource and expenditure forecasts, the level of reserves and the minimum level of the general fund balance will be reviewed as we progress through the budget setting process (see also section 15 below).

13.12 Taking into account the proposals in the above tables, the estimated level of expenditure in 2017/18 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B.

13.13 The forecasts for the years 2018/19 – 2020/21 are volatile and should be treated with extreme caution. Future Finance Settlement announcements and consultation outcomes will also determine government funding for these years. In addition, the forecasts are dependent on achieving the savings identified through the Fenland CSR process.

13.14 The draft Business Plan for 2017/18 continues the Council's successful improvement programme for all services. The funding for the majority of the priorities is included by rolling forward costs in this year's budget without the requirement for any specific "growth" to be identified.

13.15 These financial forecasts are based on the following strategic objectives and guidelines:-

- that the Council's expenditure plans will follow the medium term priorities set by the Council (as shown at paragraph 4.1.) and contained in the business plan,
- that the level of the general fund reserve will be reduced if necessary, over the period of the MTFS to provide the resources necessary to deliver priority services,
- that the level of the general fund reserve will be kept above a target minimum level of £2 million during the current uncertain economic conditions. This minimum level will be kept under review over the next few years.

Assumptions built into Budget and Medium Term Forecasts

13.16 Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in paras 13.17 – 13.18. The main assumptions are as follows:

- 1.98% Council Tax increase for 2017/18 and thereafter;
- 1.65% increase in Council Tax base in 2017/18 and 1.00% thereafter;
- 1% pay award per annum for 2017/18 and thereafter;
- Allowance for pay increments;
- Implementation of the increase to the National Living Wage from April 2017;
- Increase in Employer's Pension Contributions (as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2016). The current years' contribution takes the form of a percentage of pay (17%) together with a lump sum payment of £817,000. For 2017/18 the percentage of pay has increased to 17.4% although the lump sum payment has reduced to £785,000. For 2018/19 and 2019/20, the percentage of pay remains at 17.4% with the lump sum payments increasing to £825,000 and £865,000 respectively;
- Inclusion of the Apprenticeship Levy from April 2017 at an annual cost of around £33,000;
- Inclusion of a vacancy factor in 2017/18, equivalent to a reduction in staff costs of £92,400 (0.75%);
- 0% general inflation for the period of the Medium Term Forecasts;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
- Investment interest rates to stay at current rates until second quarter of 2019 when market rates are forecast to begin rising slowly;
- Continuing impact of 2016/17 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels. This is pending the review of fees and charges by Overview & Scrutiny Panel in January 2017;
- Allowance has been made for higher non-collection rates for Council Tax due to the impact of the local Council Tax Support Scheme;

- The New Homes Bonus for 2017/18 onwards has been included as detailed in Table 2 above.

Risk Assessment

13.17 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the draft estimates:-

- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans
- Maintaining "earmarked" reserves for potentially unbudgeted expenditure,
- Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant,
- Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates,
- Maintaining a rolling review of forecast estimates beyond the current year.

13.18 2017/18 will continue to see risks imposed upon the Council with the Business Rates Retention system and the Local Council Tax Support scheme. Both of these have significant risks associated with them particularly around growth forecasts and collection rates. In addition, the uncertain future of the New Homes Bonus could also pose significant risks to future resources. There is also a risk to local government resources in the future around the outcome of the Brexit negotiations. The Council will seek to minimise these risks by adopting the methodology detailed in 13.17 above together with robust in-year monitoring systems.

13.19 These assumptions are made with all available information, but are necessarily calculated based on some broad criteria. In the current economic climate, some of these assumptions are particularly volatile. The MTFS will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and consideration can be given to any action or changes in direction that may be required.

Council Tax Referendum

13.20 As part of the 2017/18 Local Government Finance Settlement announcement in December 2016, the government has again proposed that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2017/18 that exceed the government set limit. This limit has been set at 2% for 2017/18 for District Councils (or £5 if you have lowest quartile council tax levels).

14 Capital Programme

14.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.

14.2 A fully updated Capital Programme for 2016-20 is presented at Appendix C for approval. The only changes from the programme presented to Cabinet on 20 October 2016 are minor re-profiling of expenditure and income between years. The overall position remains the same. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront and other sites in the district.

14.3 The level of these capital receipts can be subject to some potential variability and risk. Officers are working on a variety of options to bring vacant sites to the market but there remains considerable uncertainty as to when these will be realised and capital receipts have been re-profiled accordingly. Even after this re-profiling the Council is still reliant on realising capital receipts of £2.945 million between now and 2020 to fund the programme at Appendix C.

14.4 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Reviews of the programme and resources available are carried out regularly during the year. Appendix C shows that without potential future capital receipts, the programme is in deficit by £674k at the end of 2018/19. Appendix C also shows that the uncommitted balance on the Capital Contribution Reserve is £484k.

14.5 Consequently, the future projects identified by members not currently included in the existing programme (detailed in Appendix C) will not proceed until sufficient funding is identified.

14.6 Alternative methods of funding the capital programme, such as prudential borrowing, may require consideration. These methods, however, will incur significant additional annual revenue costs on the Council which will need consideration in the context of the Council's forecast financial position.

14.7 No further new schemes have been included in the programme, however there are a number of essential projects currently being assessed by Officers which may result in new schemes being put forward for member's consideration between now and the final budget report in February 2017. These include maintenance and improvement of assets (mini-factories, car parks, industrial estates, open spaces, leisure centres etc.) as detailed in the Asset Management Plan 2017-20 presented to Council on 15 December 2016.

14.8 Members are also reminded of the impact on the revenue account of using uncommitted capital resources. Whilst they remain uncommitted, the resources are invested and generate revenue income to the general fund. Consequently, for every £1m spent the revenue account loses around £6,000 per annum at current interest rates. Based on the average interest rates projected over the Medium Term Financial Strategy (1 -1.5%), this equates to a reduction in investment interest of between £10,000 - £15,000 per annum for every £1m of capital resources spent.

15 Review of General Fund Balance and Specific Reserves

15.1 An important part of any budget strategy is the review and consideration of reserves. The strategy applies a robust but prudent use of these balances to cushion the impact of the economic climate, but maintaining the minimum level of reserves for the Council over the medium term.

15.2 The current strategy is not to use the general fund balance to fund the projected deficits in future years from 2017/18 onwards. This will ensure the balance is kept above the target minimum level of £2m. However, due to the uncertainties relating to future resource and expenditure forecasts, this strategy will be reviewed as we progress through future budget setting processes.

15.3 Sufficient levels of reserves are necessary to provide for various and unplanned for contingencies that may include:-

- significant increased costs of providing statutory services
- significant increased contractual costs
- an unexpected and/or significant event or disaster, e.g. civil emergency

- the need to make significant payments in relation to prior year adjustments under the direction of the external auditor

15.4 The Council's current forecast uncommitted General Fund Balance at 31 March 2017 is £2.394m. The target minimum level for this reserve is £2m and the current strategy is not to use this balance to fund the projected deficits in future years. However, as detailed earlier in this report, the Council may be required to utilise the Local Government Resource Review Reserve (for fluctuations in business rates income over the next few years) and the PNPF Reserve in relation to the S75 debt liability.

16 Fees and Charges

16.1 The Overview and Scrutiny Panel will consider all fees and charges at their meeting on 16 January 2017 and recommend levels to Cabinet at their meeting on 19 January 2017.

APPENDIX A

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary	**Approved Estimate 2016/17 £**	**Revised Estimate 2016/17 £**	**Estimate 2017/18 £**
Growth & Infrastructure	1,487,940	1,425,725	1,552,325
Housing, Environment, Leisure & Community	5,049,220	4,840,620	4,466,150
Planning, Resources & Customer Services	6,438,640	6,427,448	6,236,820
Policy & Governance	1,467,690	1,408,540	1,447,470
Capital Charges	2,475,000	2,475,000	2,475,000
NET COST OF GENERAL FUND SERVICES	**16,918,490**	**16,577,333**	**16,177,765**
Corporate Items			
Contributions to/ (from) Earmarked Reserves	870	-21,230	109,930
RTB/VAT Sharing Income	-130,000	-270,000	-130,000
Capital Charges Reversal	-1,714,740	-1,721,483	-1,689,369
Investment Income	-170,000	-160,000	-140,000
New Homes Bonus	-2,042,320	-2,042,320	-1,649,140
New Homes Bonus Adjustment	-7,710	-7,710	0
Transition Grant	-1,580	-1,580	-1,580
Council tax Support - *Payments to Parish Councils*	89,260	89,260	59,500
Apprenticeship Levy	0	0	33,000
Vacancy Factor	0	0	-92,400
Business Rates - net additional income from growth *(after levy payable to Government)*	-942,147	-942,147	-1,000,239
Corporate Adjustments	**-4,918,367**	**-5,077,210**	**-4,500,298**
Net Expenditure before savings	**12,000,123**	**11,500,123**	**11,677,467**
Original Savings target 2017/18			*-601,000*
Savings identified and included above			*601,000*
			0
Net Expenditure after Savings	**12,000,123**	**11,500,123**	**11,677,467**
Contribution to Pilots' National Pension Fund Reserve	**0**	**500,000**	**0**
NET EXPENDITURE after use of balances/reserves	**12,000,123**	**12,000,123**	**11,677,467**
Settlement Funding Assessment			
Revenue Support Grant	**-1,698,731**	**-1,698,731**	**-924,958**
Business Rates Baseline Funding	**-3,387,897**	**-3,387,897**	**-3,457,064**
Council Tax Collection Fund Surplus(-)	**-156,790**	**-156,790**	**-134,000**
Business Rates Collection Fund Deficit(+)	**240,260**	**240,260**	**92,070**
COUNCIL TAX REQUIREMENT	**6,996,965**	**6,996,965**	**7,253,515**
Forecast General Fund Balance - 31st March	2,393,637	2,393,637	2,393,637

Balance 1st April 2016 2,393,637

APPENDIX B

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

RESOURCES STATEMENT	Approved Estimate 2016/17 £000	Projected Outturn 2016/17 £000	**Forecast Estimate 2017/18 £000**	Forecast Estimate 2018/19 £000 (Subject to CSR)	Forecast Estimate 2019/20 £000 (Subject to CSR)	Forecast Estimate 2020/21 £000 (Subject to CSR)
A Resources						
(i) **Central Government**						
Revenue Support Grant	1,699	1,699	925	444	0	0
Business Rates Baseline Funding	3,387	3,387	3,457	3,568	3,695	3,824
	5,086	5,086	4,382	4,012	3,695	3,824
			-14%	*-8%*	***-8%***	***3%***
(ii) **Council Tax**						
Council Tax Payers	6,997	6,997	7,254	7,471	7,696	7,930
Collection Fund Surplus	157	157	134	0	0	0
(iii) **Business Rates**						
Collection Fund Deficit(-)	-240	-240	-92	0	0	0
Use of Balances						
(iv) General Fund	0	0	0	0	0	0
(v) Contribution to PNPF Reserve	0	-500	0	0	0	0
Total Use of Resources	**12,000**	**11,500**	**11,678**	**11,483**	**11,391**	**11,754**
B Spending Levels						
(i) Budget	14,042	13,542	13,327	13,624	13,712	14,100
New Homes Bonus	-2,042	-2,042	-1,649	-1,261	-1,210	-1,210
Original Savings Target 2017/18			*-601*			
Savings Achieved to date (included above)			*601*			
			0			
Savings Identified 2018/19				-880	-880	-880
Savings Identified 2019/20					-25	-25
Budget after efficiency savings	**12,000**	**11,500**	**11,678**	**11,483**	**11,597**	**11,985**
Cumulative Funding Gap	**0**	**0**	**0**	**0**	**206**	**231**
Approved Efficiency Plan savings					*-206*	*-206*
Funding Gap - in Year *(after Efficiency Plan savings)*		**0**	**0**	**0**	**0**	**25**
C Council Tax Increase			***1.98%***	***1.98%***	***1.98%***	***1.98%***
D Forecast Balances						
(i) General Fund	2,394	2,394	2,394	2,394	2,394	2,394

Assumptions

1 Council Tax base increase 2017/18 1.65%, 2018/19 onwards 1.00%

2 Government Support - 2017/18 - 2019/20 as per multi-year Finance Settlement, resulting in zero RSG in 2019/20.

3 2020/21 will be the first year of 100% Business Rates Retention system. No details available to enable forecast of impact of this system so 2020/21 forecasts based on current Business Rates system.

APPENDIX C

CAPITAL PROGRAMME AND FUNDING 2017 - 2020

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
CURRENT FORECAST EXPENDITURE	**3,427**	**1,906**	**1,180**	**1,130**
RESOURCES AVAILABLE				
General Fund Resources				
Capital Grants	925	845	845	845
Usable Capital Receipts - In Year	465	135	75	0
Usable Capital Receipts - B/fwd	1,130	0	0	0
Reserves used in year to fund Capital	77	411	0	0
Section 106's	63	0	0	0
Finance Leases	330	0	0	0
Borrowing - Internal	823	0	0	0
Total Resources	**3,813**	**1,391**	**920**	**845**
Net Financing Need For The Year	(386)	515	260	285
Cumulative Financing Need before use of Uncommitted and Future Resources	**(386)**	**129**	**389**	**674**
Uncommitted and Future Resources				
Uncommitted Capital Contribution Reserve	(484)			
Potential Future Capital Receipts		(370)	(950)	(950)
Cumulative Potential Funding available	**(870)**	**(725)**	**(1,415)**	**(2,080)**

Future Potential Capital Projects *1,276*

CAPITAL PROGRAMME SUMMARY 2017 - 2020

		2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
Leisure Centres									
1	Energy Plan - RE:FIT	823				**823**	823		£823k Internal Borrowing
2	Essential Buildings Safety Improvements	17				**17**	17		
Regeneration Programmes									
3	Fenland Renaissance and Place Shaping	51				**51**	51		
4	Heritage Lottery Fund - Match Funding bid		100	50		**150**	150		
5	Heritage Lottery Fund - 24 High Street, Wisbech	30	120			**150**	150		
Parks and Open Spaces									
6	Wenny Road,BMX Track	19				**19**	12	7	£7k Section 106
7	Wisbech Park, Bandstand	38				**38**	0	38	£30k WREN; £8k Section 106
8	Benwick Play Scheme	98				**98**		98	£50k WREN; £48k Section 106
Highways									
9	Street Light Improvements - FDC	50	66			**116**	116		
10	Street Light Improvements - Parishes (Categories 1 & 2)	50	121			**171**	171		£171k Capital Reserve
11	Street Light Improvements - Wimblington Road, March	10				**10**	10		£10k Capital Reserve
12	Street Name Plates/District Facilities Signage	24				**24**	24		
Port									
13	Mooring & Fuelling Facilities, Sutton Bridge	182				**182**	182		
Vehicles and Plant									
14	Vehicles	785	157	170	170	**1,282**	1,282		£330k Finance Lease Facility
Office Refurbishments									
15	Fenland Hall - Upgrade Alarm System	5				**5**	5		
16	Fenland Hall - Overflow Car Park	26				**26**	26		
ICT System Replacement Programme & Upgrades									
17	Replacement & Upgrade Programme	142	75	75	75	**367**	367		
Improvement of Assets									
18	Sewage Treatment Works Refurbishment	39				**39**	39		
19	Energy Plan - Invest to Save Projects	26				**26**	26		
20	Land Drainage Improvements - Birch Fen	8				**8**	8		
Markets									
21	Service Tower Replacements	20				**20**	20		
Economic Estates									
22	Mini-Factories Refurbishment	45				**45**	45		
Sub -Total		**2,488**	**639**	**295**	**245**				

CAPITAL PROGRAMME SUMMARY 2017 - 2020

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
B/FWD	**2,488**	**639**	**295**	**245**				
Community Fund								
23 March Athletics Club		8			**8**	8		
24 Estover Playing Field Sports Provision, March		100			**100**	100		£100k Management of Change Reserve
Rural Community Fund								
25 Christchurch Parish Council - Sports Pavilion	38				**38**	38		
26 Coates Athletic Football Club - Changing Facilities	14				**14**	14		
27 Friday Bridge Play/Skate Park & MUGA		77			**77**	77		
Community Safety								
28 Wireless CCTV		167			**167**	167		£167k Management of Change Reserve
29 Alarm Receiving Centre		30			**30**	30		£30k Management of Change Reserve
Private Sector Housing Support								
30 Private Sector Renewal Grants	42	40	40	40	**162**	162		
31 Disabled Facilities Grants	845	845	845	845	**3,380**	0	3,380	£3.380M Govt Grant
Total - Current Approved Programme	**3,427**	**1,906**	**1,180**	**1,130**	**7,643**	4,120	3,523	

CAPITAL PROGRAMME SUMMARY 2017 - 2020

		£000
Leisure Centres		
1	Chatteris Leisure Facilities - contingency	900
2	George Campbell Leisure Centre - Improvements	221
Regeneration Programmes		
3	Tourism Initiatives	75
Market Towns Fund		
4	Contingency	80
TOTAL - Future Strategic Allocations		**1,276**