Appendix 7

Medium Term Financial Strategy 2018/19 to 2021/22

1.1 This report outlines the Medium Term Financial Strategy - **MTFS** - for the Council over the four year period 2018/19 to 2021/22 based on the budget proposals for 2018/19.

1.2 The MTFS sets out the Council‟s strategic approach to the management of its finances reflecting the funding and expenditure forecasts for the coming years, the continued financial challenges that the Council faces and the approach planned to meet the priorities identified by the Council.

1.3 The report also considers the risks facing the Council how these risks are mitigated and the robustness of its reserves.

2 Introduction

2.1 Key areas of the report are outlined below

- MTFS in context
- The Current Medium Term Financial Strategy 2016-2018
- National context
- Local context
- Financial Strategy
- Medium Term Financial Plan 2018 to 2022
- Capital Investment strategy 2018 to 2020
- Treasury Management Strategy
- Risk Management

3 Medium Term Financial Strategy – MTFS - in context

3.1 The Council's financial strategy is constructed using a planning model to assess the impact of the Council's budget planning over a five year period (reflecting the current financial year, the budget year and three successive years).

3.2 The MTFS is a strategic plan to assess the revenue, capital and treasury management impact on the Council for the medium term setting out an approach to the management of its finances. It summarises the resource projections and the financial challenges from cost and service demand rises, inflationary pressures and funding risks to assess the impact and actions to deliver the priorities of the Council. It also outlines significant risks facing the council and considers actions to mitigate these risks.

3.3 Each year the Council has to comply with its statutory obligation to prepare and approve an annual budget and set the Councils Council Tax. These cannot be effectively agreed without considering the longer term objectives, resource issues and demographic trends. The MTFS takes into account the medium term implications of the key issues facing the Council and also examines longer-term considerations and provides context to the Council's Budget setting process.

3.4 Based on a longer term view the Council is more able to consider the role it can play in the development and growth of the City and consider the strategic investment required to promote economic growth and social development.in a financially balance manner.

4 The Current MTFS – 2016/17 to 2018/19

4.1 The current MTFS reflected the continuing impact of the Governments "austerity" programme and projected reducing grant funding requiring additional savings to be made in some core services to ensure the Council's financial position remained balanced.

4.2 Savings targets were set but not always delivered, in line with plans, to reflect the changing requirements of the Council and the services it provides to residents. The changes to the Library service and delivery redesign in adults and children's services have all be subject to review and revision to take account of timing and demographic pressures. To mitigate the non-delivery of some savings, others have been identified and implemented to ensure that the budget was balanced in 2016/17 and is forecast to broadly balance in 2017/18.

4.3 The Council will consider the 2018/19 budget proposals in January 2018 which currently indicate a balanced budget for that year also.

4.4 In line with the four year Settlement agreed with the government, the Council has utilised some of its reserves to "smooth" the delivery of a balanced budget to reflect the uncertainty around savings planning and delivery.

5 National Context

5.1 The Chancellor, Philip Hammond, has indicated in his November 2018 budget that there is little opportunity to loosen overall fiscal policy. In addition the budget contained little or no changed in the expected level of central government funding for local authorities but not all grants and impacts will be known before the end of January 2018.

5.2 The Local Authority Settlement was published for consultation in December and did include two new options:

- To allow Councils to increase the cap on Council Tax rises to 6% (including up to 3% for adult social care)
- The creation of further "pilots" to test 100% Business Rates retention – of which the Derbyshire authorities was one of the successful bids

Both these initiatives hint at the Governments direction of travel to reduce central grant allocations and increase local authority funding focus on Council Tax and Business Rates income streams.

5.3 Despite this continuing approach, the Chancellor has reiterated the Government's commitment to reduce the overall deficit.

5.4 The government continues to focus its efforts on the issue of Brexit which continues to create substantial uncertainty for the wider UK economy and currency instability although the announcement of a "Fair Funding" review may allow for some of the imbalances between "north and south" and "city and county" to be addressed; but not before 2020.

5.5 Both the Bank of England (BofE) and the Office of Budget Responsibility (OBR) issued their latest views of the UK Economic outlook before Christmas and echo the following:

- Sterling depreciation is creating inflationary pressures in the UK economy
- Economic growth continues to be sluggish
- Productivity lags behind the UK's competitor economies
- Interest rates are likely to rise – but slowly – over the medium term

and these factors create additional financial risk to the Council's financial planning assumptions.

6 Local Context

6.1 The Council's MTFS is influenced by wider economic situation but remains focussed on the delivery of core services and meeting the increasing demands from the community at the local level while stimulating economic and social improvement through its capital investment strategy.

6.2 The Council continues to experience increasing in demand for some of the key services it provides to the most vulnerable members of the community, within adult social care and children"s services and there is little evidence of this demand declining in the foreseeable future.

6.3 Derby has limited ability to raise resources through local taxation when compared to other authorities due to the high proportion of low value dwellings, many of which fall into band A, and a nationally low tax base - band D council tax.. Coupled with the current "cap" on raising Council tax, the city has much less flexibility to raise funds than other councils while having to deliver services to a more disadvantaged, vulnerable community.

6.4 Derby's ranking in relation to the national Index of Multiple Deprivation remains low, leading to the Council being "underfunded" in a number of areas, while clearly being a place to live and work as reflected in the latest economic growth indices (where Derby was ranked in the top ten of most rapidly growing places).

6.5 The City continues to be the location for both global and national businesses and the Council is committed to support the continued development of its infrastructure to provide homes, schools, transport links and world class facilities to support further growth though its capital investment programme.

7 **The Strategy**

7.1 The Council's core objectives remain focussed on creating:

- A safe place to live and work
- Strong communities to support businesses and residents
- An ambitious city to benefit everyone and
- A resilient Council to support the delivery of the above.

supported by a balanced sustainable MTFP.

7.2 The Medium Term Financial Plan **(MTFP)** reflects the Council's revenue, capital and treasury management planning and, based on the 2018/19 budget proposals is balanced for the first two years of the planning period. The MTFP builds on current financial performance adjusting the core budgets for known cost and demand pressures offset by specific savings. During 2017/18 the planning model has been redeveloped to reflect a longer planning period and allow scenario planning to test the robustness of financial assumptions.

7.3 The Council's capital investment programme has been critically reviewed to create a more delivery focussed plan and ensure that spending commitments are delivered in line with plans and agreed timescales. This has allowed Cabinet to identify and prioritise its key projects for the improvement of the city and to understand the financial implications of those investments.

7.4 The Treasury Management Strategy set during 2016/17 has allowed the costs associated with borrowing and investing to be analysed and with the support of external advisors leading to the identification of further savings. The review of Treasury Management has considered re-profiling debt, seeking improved returns form investments and the provision required to repay debt as it matures.

7.5 The Council works with other authorities, public sector, NHS and private organisations on a range of activities. Opportunities to work more closely with these organisations to achieve shared outcomes, share costs and expertise and generate efficiencies will continue to be pursued.

7.6 Despite the financial constraints experienced in recent years the updated MTFP currently indicates balanced revenue budgets for the years 2018/19 and 2019/20 with the requirement to make relatively modest savings in the medium term. In addition the capital investment plans now make provision for the following key projects:

- a new swimming venue costing £33.0m – to start build in 2018/19;
- a new performance space (subject to funding) costing £44m to follow the pool construction;
- new office accommodation for the private sector;

all supporting the development of a safe and attractive environment for communities across the city.

7.7 The financial landscape facing the Council continues to be challenging due to the forecast cuts in Government funding and increasing local demographic pressures. The Council will endeavour to balance its revenue budget by delivering existing saving and continuing to identify new efficiencies. Where additional savings and reductions are required the Council will continue to look for ways to protect the statutory services it delivers to the most vulnerable members of the community.

8 The MTFP – 2018/19 to 2020/21

8.1 The figures included within the MTFP are based on the Council's latest forecasts, estimates and assumptions, in line with the 2018/19 budget proposals. Existing pressures have been revised and new pressures and savings included as relevant to the changing nature of the economy and government policy. The figures are expected to change as further information becomes available through the 2018/19 Settlement and assumptions clarified. In the latter years of the plan additional savings proposals need to be developed to ensure a balanced, sustainable budget position is achieved.

8.2 **Revenue Plans**

8.3 Table 1 shows the latest draft MTFP for 2018/19 to 2020/21.

Gross Budget	**Budget**	Budget	Budget	Budget
£millions	**2018/19**	2019/20	2020/21	2021/22
Dedicated Schools Grant	214.938	214.938	214.938	214.938
Other Grants (RSG,PH,BCF)	63.773	58.685	52.278	49.245
Business Rates	60.982	66.178	68.190	70.505
Council Tax	92.150	94.817	97.555	100.075
Fees and Charges	197.327	191.473	196.598	201.080
Gross Revenue Budget	**629.170**	626.091	629.559	635.843

Revenue Budget	**Budget**	Budget	Budget	Budget
£millions	**2018/19**	2019/20	2020/21	2021/22
Gross Budget	629.170	626.091	629.559	635.843
Total Income before Core Gov't Grants, CT and Business Rates	-412.265	-406.411	-411.536	-416.018
Net Budget	**216.905**	219.680	218.023	219.825

Budget Summary	**Budget**	Budget	Budget	Budget
£millions	**2018/19**	2019/20	2020/21	2021/22
Net Budget	220.246	216.905	219.680	225.247
Demand/Service Pressures	6.760	2.714	3.244	3.124
Inflationary Pressures	2.658	2.725	2.783	2.845
Savings Proposals	-12.759	-2.664	-0.460	-0.158
Reduction in Public Health Funding/Expenditure				

Net Budget before use of reserves	216.905	219.680	225.247	231.058
Use of/(contribution to) reserves	0.000	0.000	0.000	0.000
Proposed Revenue Budget	**216.905**	219.680	225.247	231.058
Further Savings to Find			-7.224	-11.233
	216.905	219.680	218.023	219.825

Net Spending Limits by Directorate	**Budget**	Budget	Budget	Budget
£millions	**2018/19**	2019/20	2020/21	2021/22
People's	142.915	144.884	149.580	154.223
Communities and Place	42.681	42.575	43.181	43.723
Corporate Resources	23.708	22.344	22.518	22.694
Corporate Costs	7.601	9.877	9.969	10.418
Proposed Revenue Budget	**216.905**	219.680	225.248	231.058
Use of/(contribution to) reserves	0.000	0.000	0.000	0.000
Further Savings to Find			-7.225	-11.233
Revenue Budget	**216.905**	219.680	218.023	219.825

9 Capital Plans

9.1 The capital programme for 2018/19 to 2020/21 is set out below. A significant amount of the programme is funded by third party grants mainly from the departments of Education (schools) and Transport (roads). Some projects are funded by a number of sources including the Council's own funds either through cash or additional borrowing.

9.2 The current programme assumes the continuation of funding, in relation to transport, social care and children's services, although at a reducing level in line with government austerity measures.

Capital Programme	**Budget 2018/19**	**Plan 2019/20**	**Plan 2020/21**	**Plan 2021/2022**
Total Schools Programme	**14,842,692**	21,923,249	7,655,162	7,380,000
Total Housing General Fund Programme	**4,155,000**	3,620,000	3,039,000	3,039,000
Total Property Programme	**25,503,000**	26,937,000	4,887,000	4,787,000
Total Flood Defence Programme	**13,341,406**	24,845,465	17,761,611	4,657,331
Total Highways & Transport programme	**14,102,524**	8,163,500	6,270,000	5,900,000
Total Vehicles Plant & Equipment	**25,480,000**	4,772,000	370,000	-

Total Regeneration Programme	**14,722,538**	14,674,593	21,956,000	23,006,017
Total ICT	**2,925,000**	1,050,000	200,000	-
Total HRA	**19,217,000**	17,742,000	16,209,000	20,805,000
Total	**134,289,160**	**123,727,807**	**78,347,773**	**69,574,348**

9.3 The following table summarise the funding projections for the capital investment plan:-

Funding Summary	**Budget 2018/19**	**Plan 2019/20**	**Plan 2020/21**	**Plan 2021/2022**
External Funding	53,314,739	60,736,902	45,596,773	17,626,331
Capital receipts	7,100,000	5,699,000	2,437,000	3,161,017
Service Funding from Revenue budgets	2,152,000	3,000,000	3,000,000	3,000,000
RCCO	794,547	500,000	500,000	500,000
Council Funding	51,710,874	36,049,905	10,605,000	24,482,000
Funding	115,072,160	105,985,807	62,138,773	48,769,348
HRA	19,217,000	17,742,000	16,209,000	20,805,000
Total Funding	**134,289,160**	**123,727,807**	**78,347,773**	**69,574,348**

9.4 The current strategy indicates that no new borrowing is required for the next two years as the Council's cash balances are reduced; mitigating the need to take on new debt. These cash resources are expected to be increased by enhanced working capital management (specifically moving to a "cashless" council and reducing debtor balances) and increased capital receipts by disposing of surplus property assets as quickly as possible.

9.5 Where capital receipts are statutorily ring-fenced, such as Right to Buy receipts, they will be allocated directly to the relevant service eg housing service.

10 Treasury Management

10.1 The Council is required to adopt an annual Treasury Management Strategy Statement (TMSS) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the Minimum Revenue Provision (MRP).

10.2 The TMSS is a summary of the Treasury Management Strategy (TMS) which provides a more detailed analysis of the council's loans and investments and the future outlook for interest rates and financing, supported by the Council's external treasury management advisors, Arlingclose

10.3 The TMS for 2018/19 sets out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of future interest rate movements

10.4 The full TMS is set out in detail in Appendix 5 and contains no significant changes to previous years. Further "technical" adjustments will be required to comply with the revised Prudential Code to be published in January 2018.

10.5 **Council Borrowings -** The table below summarises the Council's current borrowing position reflecting a net debt position of £378.572m of which some £230m relates to funding the HRA social housing stock:-

	£000
External Borrowing:	
- Fixed Rate PWLB	304,877
- Fixed Rate Market (LOBO's)	20,000
- Other Local Authorities	35,000
- Other loans	2,721
Other Long-term Liabilities:	
- Transferred Debt from other Local Authorities	2,931
- PFI Financing	98,442
- Finance Leases	826
Total Gross External Debt	**464,797**
Treasury Investments:	
- Local Authority Fixed Term Deposits	(46,000)
- Money Market Funds	(39,336)
- Unsecured Banks	(888)
Total Treasury Investments	**(86,225)**
Total Net External Debt	**378,572**

10.6 **Projected Cash Flow**

10.7 The Treasury management strategy seeks to minimise the cost of financing by ensuring new debt is only incurred when required and that lines of credit remain available to obtain finance when required. This has meant that the MTFP does not indicate a need to increase borrowings until 2020/21 as set out in the summary below:-

Cash Flow Forecast	2017/18 Forecast	**2018/19 Budget**	2019/20 Planned	2020/21 Planned
Opening cash and investments	72.4	75.0	55.0	40.0
Increased cash from upfront payments for services		10.0	5.0	-
Capital Receipts from selling unwanted properties		10.0	5.0	-
		95.0	**65.0**	**40.0**
Applied to Capital expenditure	-	(40.0)	(15.0)	(5.0)
Closing Cash and investments	**75.0**	**55.0**	**40.0**	**35.0**
Total Borrowings	**362.0**	**362.0**	**362.0**	**362.0**
Forecast net borrowing positon	**287.0**	**307.0**	**322.0**	**327.0**

10.8 By minimising the level of actual borrowings by utilising existing cash resources, the Council is "under-borrowed" that is, not matching cash with commitments in respect of the total reserves of the Council. The Council's treasury management advisors, Arlingclose, support this strategy while interest rates remain low and the cost of carrying debt is high.

11 Risk Management

11.1 As with any plan or forecast the risk of variances and uncertainties exists. Careful planning can reduce risk but the Council must be aware of the potential variations that can arise and have an identified strategy for dealing with resulting pressures. The risks to the MTFP can effect in year or future years budgets. To avoid earmarking funds in contingency budgets that may not be required the Council has adopted a strategy of first offsetting variances within service budgets and as a last resort using reserves.

11.2 The Director of Finance reviews the appropriateness of reserve levels to mitigate risk in the Report on the Robustness of Estimates and Adequacy of Reserves. Longer term planning risk and changes to future funding assumptions are continually reviewed and updated in subsequent MTFPs.

Funding Risks

Specific Grants – Revenue Support Grant is provisionally confirmed until 2019/20, but uncertainty remains over other specific grants. In particular, the New Homes Bonus and the Improved Better Care Fund continue to be subject to further government review.

Business Rates Revaluation – As the value of business rates retained is below the Governments assessment the Council receives a top up grant. The revaluation of Business rates and multiplier change will effect the total rates yield and therefore the amount retained from 2018 onwards. This should be compensated for by a corresponding change in top up grant however only the early revaluation results are available and the effect on grant has not been confirmed.

Retained Business Rates –Volatility may result in lower levels of business rates than currently forecast. The key risk area is appeals, as they are unpredictable to forecast and can be backdated over several years. The Council does hold a provision for backdated appeals and statutory regulations for timing of recognising variations in business rates allow the Council to build these into their future MTFP. Further changes are likely to arise as the government moves to 100% retentionand for 2018/19 Derby is part of a pilot – however the full impact assessment of this change is yet to be confirmed pending clarity from DCLG.

Fair Funding Review – The Government is considering changing the way in which "need" is reflected in authority funding through a "Fair Funding Review". The results and implications of this review are some way off.

Budget Delivery Risks – While the 2018/19 budget is "balanced" it is still reliant on the delivery of planned budget savings and a number of 2017/18 savings plans have not yet been delivered. This gives rise to a risk within the existing financial plans which has been mitigated by an increase in the general reserves and ensuring all savings are "owned" buy relevant directors and portfolio holders.

Cost Change Risks – the budget acknowledges the lack of certainty around inflationary pressures arising from sterling depreciation as a result of Brexit negotiations. The BofE has already stated its intention to manage this risk through appropriate increases in interest rates – which would be generally beneficial to the council.

Demand Led Services – The MTFP includes new pressures for demand led services, including Social Care demographic changes. These forecasts are based on official demographic statistics and will be closely monitored and refreshed accordingly.

Increments – The cost of increments have to be contained within existing staffing budgets. The management of this cost will be more demanding in some service areas following the implementation of job evaluation.

Capital Programme and other risks

Capital Programme – The Capital Strategy for 2018/19 to 2020/21 is directly linked to the Treasury Management strategy. Current plans do not require additional external borrowing until 2021 but any significant, unplanned expenditure will create additional revenue pressures arising from increasing debt finance.

One off Costs - there may be one-off costs to support pay costs, such as the funding of voluntary and compulsory redundancies costs over the MTFP period. The level of these will be determined as saving options are developed.