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Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL
MERTHYR TYDFIL
County Borough Council

FULL COUNCIL REPORT

Date Written	7th March 2017
Report Author	Steve Jones / Adele Lewis
Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	22nd March 2017

To: Mayor, Ladies and Gentlemen

Medium Term Financial Plan 2017/18 to 2020/21

1.0 SUMMARY OF THE REPORT

1.1 The reporting of the Council's Medium Term Financial Plan to a full Council meeting for approval is a requirement of the Local Government Act 2003.

1.2 The Council Tax increase of 2.9% and Budget Requirement of £114.795 million for 2017/18 was approved by Council on 2nd March 2017.

1.3 The Capital Programme 2017/18 to 2020/21 totalling £9.462 million for 2017/18 and £25.938 million for the four year period was approved by Council on 2nd March 2017.

1.4 The Medium Term Financial Plan 2017/18 to 2020/21 indicates a projected revenue budget deficit of £16.358 million for the period 2018/19 to 2020/21.

1.5 The Treasury Management Policy Statement and Annual Investment Strategy 2017/18 (including Prudential Indicators) are included within the Medium Term Financial Plan document.

2.0 RECOMMENDATIONS that

2.1 The Medium Term Financial Plan 2017/18 to 2020/21 (including the Treasury Management Policy and Annual Investment Strategy 2017/18) be approved.

2.2 The Prudential Indicators contained within the Medium Term Financial Plan, be approved with authorisation for managing and monitoring the authorised limit and operational boundary, delegated to the Chief Finance Officer.

3.0 INTRODUCTION AND BACKGROUND

3.1 The Local Government Act 2003 requires Local Authorities to demonstrate an integrated approach in determining their revenue and capital spending decisions through an integrated Medium Term Financial Plan (MTFP), evidencing the impact of financial decisions and ambitions on the Council Tax payer.

3.2 Council of 2nd March 2017 approved both the Council's Revenue Budget Requirement and Council Tax increase for 2017/18 at £114.795 million and 2.9% respectively.

3.3 Council of 2nd March 2017 approved the Capital Programme 2017/18 to 2020/21 of £9.462 million for 2017/18 and £25.938 million for the 4 year period.

3.4 Cabinet of 15th March 2017 agreed and recommended the MTFP 2017/18 to 2020/21 to this Council for approval.

4.0 MEDIUM TERM FINANCIAL PLAN

4.1 In order to be able to deliver the Council's aspirations as set out in its Corporate Plan, meet its statutory responsibilities, and at the same time be attentive to the needs of the communities it serves, the Council must take a very proactive approach to managing its resources effectively so that it can adequately fund its business plans yet keep Council Tax increases as low as possible.

4.2. The Medium Term Financial Plan is seen as a key tool for proactive financial management and is included as a background paper to this report. It is used as the basis of the annual budget setting process to ensure that the Council's resource needs for the forthcoming year are sufficient and aligned to the correct services' but also allows for future projected funding requirements to be identified far enough ahead so as to be able to take appropriate action to deal with any anticipated funding shortfalls.

4.3 A meaningful MTFP should be fully integrated to aid financial planning and corporate decision making. The following are considered within the Council's MTFP for 2017/18 to 2020/21:

- Corporate Plan
- Asset Management Plan
- Strategic Workforce Plan
- Financial Context
- Revenue Budget Requirements
- Capital Programme
- Reserves Strategy
- Treasury Management

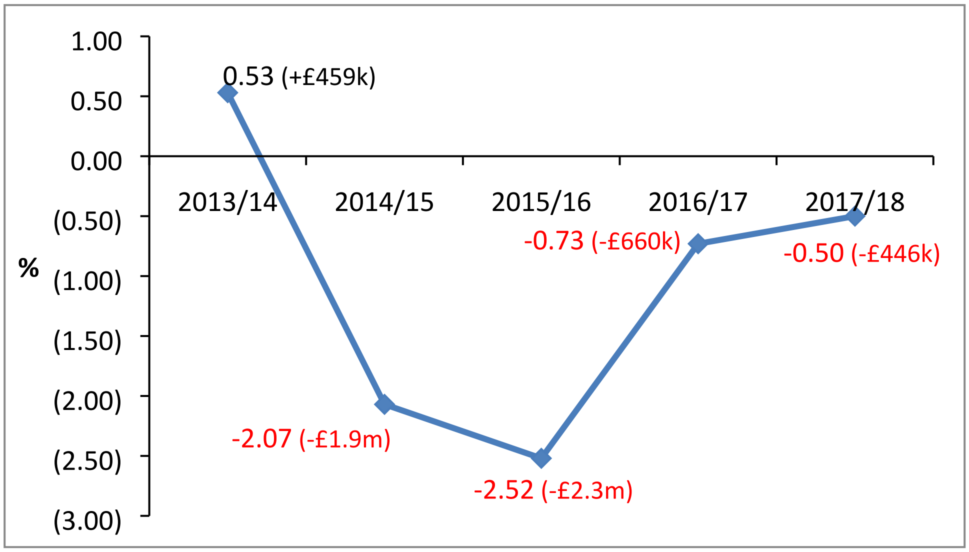
5.0 REVENUE BUDGET

5.1 Merthyr Tydfil's Aggregate External Finance (AEF) received from the Welsh Government for 2017/18 reduced by 0.5% to £88.763 million being a cash reduction of £446,046. In addition Merthyr Tydfil was supported by a "floor mechanism" for 2017/18 whereby the Welsh Government ensured that no Local Authority experienced a funding reduction greater than 0.5%. Without the "floor mechanism" Merthyr Tydfil would have experienced a funding reduction of 0.94% equating to a further cash reduction of £391,113.

5.2 The Council's revenue settlements for the period 2013/14 to 2017/18 focusing on cash impact are outlined in Figure 1. It should be noted that the Council Tax Reduction Scheme grant impact is excluded for 2013/14 to enable a more equitable funding comparison.

5.3 It is evident from Figure 1 that the Council has faced significant financial challenges for the period 2013/14 to 2017/18, experiencing a period of unprecedented funding reductions as Central Government continues its policy of financial austerity.

Figure 1 – Cash and % Changes in AEF 2013/14 to 2017/18



5.4 The net Revenue Budget for 2017/18 of £114.795 million approved by Council on 2nd March 2017, together with indicative Net Revenue Budget Requirements and projected budget deficits for 2018/19 to 2020/21 are summarised in Table 1.

Table 1 – Budget Requirements 2017/18 to 2020/21

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
People and Performance	74,694	75,891	77,334	78,158
Place and Transformation	21,296	21,690	22,144	22,486
Corporate Costs	22,009	21,639	22,233	22,286
Net Corporate Budgets	-3,204	-1,652	-727	-230
Net Required Expenditure	**114,795**	**117,568**	**120,984**	**122,700**
Estimated Finance Available (Budget Requirement**)	-114,795	-111,556	-108,518	-106,342
Projected Budget Deficit	**0**	**6,012**	**12,466**	**16,358**

** indicative for 2018/19 to 2020/21 subject to budget reduction requirements

5.5 Included within 'Net Corporate Budgets' for 2017/18 is a £757,000 contribution from the Budget Earmarked Reserve which is subject to the identification of further in-year budget reductions to minimise as far as possible this 'one-off' non-recurring requirement.

5.6 Budgets have been linked to specific corporate priority areas to demonstrate the proportion of revenue resources allocated to the Council's corporate priorities for improvement. An additional category 'Core Business As Usual' denotes that net expenditure not attributable to any specific priority area.

5.7 The position for 2017/18 is outlined in Table 2 (for gross and net expenditure), together with the code designated to each priority area.

Table 2 – Budget Requirement 2017/18 Linked to Corporate Priority Areas

Priority Area	**Code**	**Gross Budget**		**Net Budget**	
		£'000	**%**	**£'000**	**%**
Raising Standards of Attainment	RSA	43,910	26.84	43,500	37.89
Employability	E	2,549	1.56	547	0.48
Economic Development	ED	849	0.52	481	0.42
Active Lifestyles	AL	1,957	1.20	1,931	1.68
Promoting Independence	PI	24,574	15.02	17,522	15.26
Meeting the Needs of Vulnerable Children	MNVC	15,490	9.47	11,627	10.13
A Sustainable Environment	SE	32,426	19.82	7,780	6.78
Total		**121,755**	**74.43**	**83,388**	**72.64**
Core Business As Usual	CBAU	41,820	25.57	31,407	27.36
Budget Requirement		**163,575**	**100.00**	**114,795**	**100.00**

5.8 It is evident from Table 2 that the core corporate improvement priorities of education and social care make up a significant proportion of the revenue budget for 2017/18 (51% gross and 63% net).

5.9 The Budget Requirement for 2017/18 and indicative Budget Requirements for 2018/19 to 2020/21 are the culmination of a budget setting process which commenced with the reporting of the MTFP 2016/17 to 2019/20 to Council on 23rd March 2016. Proposals in respect of the Budget for 2017/18 and MTFP 2017/18 to 2020/21 have been considered and approved by Cabinet, Joint Scrutiny / Audit Committee and Council throughout 2016/17.

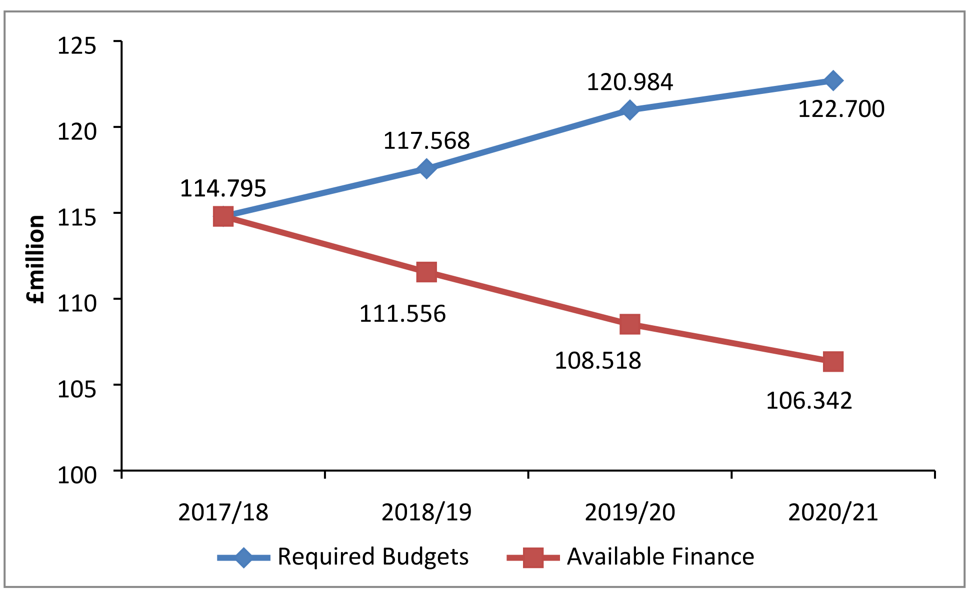
5.10 Outlined in Table 3 are the revisions to the 23rd March 2016 position approved by Council in arriving at updated budget deficits for 2017/18 to 2020/21.

Table 3 – Budget Deficits 2017/18 to 2020/21

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Budget Deficit Council 23rd March 2016	**10,017**	**15,303**	**20,302**	**n/a**
Additional Requirements	3,360	3,532	3,529	n/a
Identified Budget Reductions	-8,331	-9,677	-8,891	n/a
Revenue Settlement Implications	-2,857	-2,211	-1,946	-1,675
Schools Commitments	1,005	1,258	1,492	n/a
Net Additional Budget Reductions	-737	-934	-934	-934
Utilisation of Earmarked Reserve	-1,700	-1,259	-1,086	-592
Budget Reserve/Change Programme	-757	0	0	0
Budget Deficit Council 2nd March 2017	**0**	**6,012**	**12,466**	**16,358**

5.11 It is evident from Table 3 that the Council is faced with a revised budget deficit of £6.012 million for 2018/19 and in excess of £16 million for the 4 year period of the MTFP as represented in Figure 2.

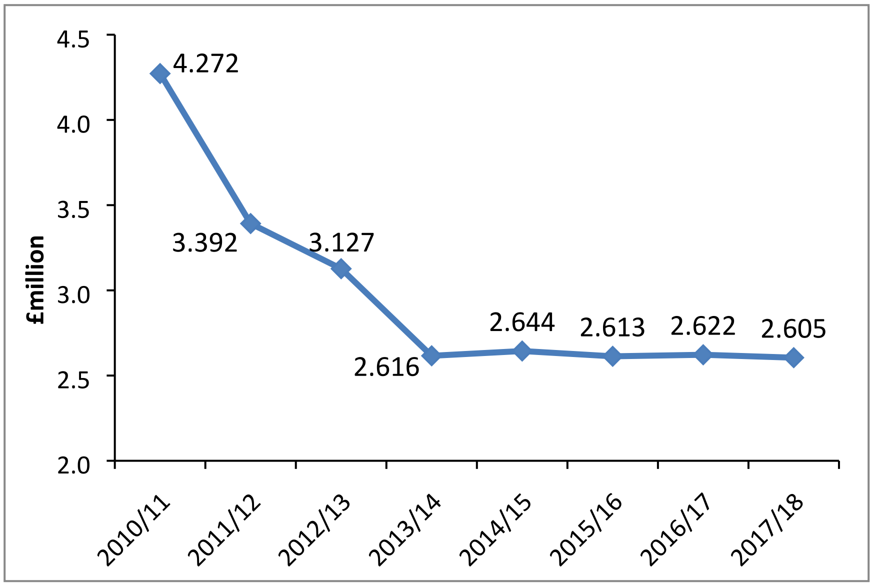
Figure 2 – Indicative Budget Deficits 2017/18 to 2020/21



6.0 CAPITAL PROGRAMME

6.1 Outlined in Figure 3 are the General Capital Funding (GCF) allocations received from the Welsh Government for 2010/11 to 2017/18 clearly demonstrating that Capital Settlements have significantly reduced over the period 2010/11 to 2013/14 before stabilising at circa £2.6 million per financial year.

Figure 3 – GCF Allocations 2010/11 to 2017/18



6.2 It is evident from Figure 3 that current capital funding through the GCF has reduced by £1.667 million (39%) from 2010/11 to current funding levels. If GCF had been maintained at the 2010/11 level then the Council would have received an additional £10.285 million funding up until 2017/18.

6.3 It should be noted that a significant amount of additional capital investment is supported by external providers such as Welsh Government, Heads of the Valley Programme, Heritage Lottery Fund and European Regional Development Fund demonstrating the Council's ability to attract and successfully bid for external capital funding.

6.4 The Council approved Capital Programme for 2017/18 to 2020/21 indicates a core funded Capital Programme of £9.462 million for 2017/18 and £25.938 million for the four year period as summarised in Table 4.

Table 4 – Summary Capital Programme

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Capital Expenditure				
21st Century Schools	2,906	3,800	0	0
Physical Regeneration	700	650	1,100	1,150
Riverside	709	516	637	0
Other Projects	5,147	3,307	2,385	2,931
Total Expenditure	**9,462**	**8,273**	**4,122**	**4,081**
Financed By:				
General Capital Grant	986	986	986	986
Supported Borrowing	2,150	1,619	1,619	1,619
Capital Receipts	929	928	500	500
Corporate Investment Fund	200	0	0	0
Unsupported Borrowing	5,197	4,740	1,017	976
Total Finance	**9,462**	**8,273**	**4,122**	**4,081**

6.5 Projects within the Capital Programme have been linked to specific corporate priority areas to demonstrate the proportion of capital resources allocated to the Council's corporate priorities for improvement. As with revenue expenditure the category 'Core Business As Usual' denotes that net expenditure not attributable to any specific priority area. The position over the life of the Capital Programme is summarised in Table 5.

Table 5 – Capital Programme Linked to Corporate Priority Areas

Priority Area	Code	Budget £'000	Budget %
Raising Standards of Attainment	RSA	6,915	27
Employability	E	0	0
Economic Development	ED	3,600	14
Active Lifestyles	AL	0	0
Promoting Independence	PI	3,400	13
Meeting the Needs of Vulnerable Children	MNVC	0	0
A Sustainable Environment	SE	1,862	7
Core Business As Usual	CBAU	8,531	33
Unallocated	-	1,630	6
Total		**25,938**	**100**

6.6 From Table 5 it is evident that the most significant proportion of the Council's "core" capital funding is allocated to the corporate improvement priority of ‘Raising Standards of Attainment’ (27%) and ‘Core Business As Usual’ (33%), whilst 6% remains ‘Unallocated’.

7.0 TREASURY MANAGEMENT

7.1 The Council’s Treasury Management Policy and Annual Investment Strategy for 2017/18 are included within the MTFP 2017/18 to 2020/21 document. The Prudential Indicators included within the Policy, ensure that the Council’s borrowing and investment plans included within the MTFP are affordable, prudent and sustainable and are re-produced as Appendix 1.

8.0 FINANCIAL IMPLICATION(S)

8.1 The MTFP for 2017/18 to 2020/21 projects a Revenue Budget deficit of £16.358 million for the 4 year period.

8.2 The MTFP for 2017/18 to 2020/21 projects a Capital Programme of £25.938 million for the 4 year period.

9.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

9.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals positively impact on the Financial Sustainability of Public Services.

10.0 EQUALITY IMPACT ASSESSMENT

10.1 An Equality Impact Assessment (EqIA) form has been prepared for the purpose of this report. It has concluded that the proposals have a non-discriminatory impact for all protected characteristics. The form can be accessed on the Council’s website/intranet via the ‘Equality Impact Assessment’ link.

GARETH CHAPMAN ***CHIEF EXECUTIVE***	***COUNCILLOR PHIL WILLIAMS*** ***CABINET MEMBER FOR*** ***GOVERNANCE AND CORPORATE*** ***SERVICES***

BACKGROUND PAPERS		
Title of Document(s)	**Document(s) Date**	**Document Location**
Budget Requirement and Council Tax 2017/18	Council 2nd March 2017	Council agenda and minutes / Finance Department
Medium Term Financial Plan 2017/18 to 2020/21	Cabinet 15th March 2017	Cabinet agenda and minutes / Finance Department

Does the report contain any issue that may impact the Council's Constitution?	**No**

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.

Appendix 1

The Prudential Code for Capital Finance in Local Authorities

The Prudential Indicators

Prudential Indicators are the mechanism by which the Authority is able to demonstrate that its capital investment decisions are affordable, prudent and sustainable and are designed to support and record local decision-making.

The recommended Prudential Indicators for the Council for the financial years 2017/18 to 2019/20 are disclosed below. I would advise Council that the financial forecasts are made on the basis of best information available at this time and by making reasonable assumptions where significant elements of uncertainty existed. Furthermore, the three-year forecasts are rolling scenarios not fixed for three years.

1. Ratio of Financing Costs to Net Revenue Stream

This indicator is specifically related to the affordability of capital investment decisions addressing the revenue implications of the Authority's financial strategy. In determining the indicators, recommended new borrowing to finance desired future capital expenditure is taken into account.

	Projected 2016/17	**Estimate 2017/18**	**Estimate 2018/19**	**Estimate 2019/20**
Prudential Indicator	6%	6%	7%	7%

2. Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

This indicator identifies the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements, for 2017/18 and the following two years. The 2017/18 incremental impact is included in the overall recommended Council Tax increase for Merthyr Tydfil County Borough Council for 2017/18 of 2.90%. This is a fundamental indicator of affordability.

Prudential Indicator	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Impact on Council Tax	£15.27	£23.63	£34.59

3. Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

As evident from the table below debt is not projected to exceed the capital financing requirement.

Description	Projected 31/03/17 £'000	Estimate 31/03/18 £'000	Estimate 31/03/19 £'000	Estimate 31/03/20 £'000
Capital Financing Requirement	99,556	104,411	107,880	107,359
Debt	91,938	98,994	101,978	104,792
Prudential Indicator	**7,618**	**5,417**	**5,902**	**2,567**

4. Capital Expenditure

The capital expenditure projected outturn for 2016/17 and the estimates of capital expenditure to be incurred for 2017/18 and the following two years are as follows.

	Projected 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Prudential Indicator	19,916	11,831	11,073	13,522

The capital expenditure projections for the next three years are derived after taking into account affordable, prudent and sustainable borrowing levels after estimating the availability of capital finance from capital receipts, grants and external contributions. Excess borrowing will either lead to increased Council Tax or reductions in service provision.

5. Capital Financing Requirement

Estimates of the end of year capital financing requirement for the Authority for the current and next three financial years are:

	Projected 31/03/17 £'000	**Estimate 31/03/18 £'000**	**Estimate 31/03/19 £'000**	**Estimate 31/03/20 £'000**
Prudential Indicator	99,556	104,411	107,880	107,359

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose.

6. Authorised Limit for External Debt

The Council's authorised limits for its external debt gross of investments for the next three financial years are as follows. These limits separately identify borrowing from other long-term liabilities.

Authorised Limit	**Estimate 2017/18 £'000**	**Estimate 2018/19 £'000**	**Estimate 2019/20 £'000**
Borrowing	117,414	120,696	123,792
Other Long-term Liabilities	500	500	500
Prudential Indicator	**117,914**	**121,196**	**124,292**

These authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. I can confirm that they are based on the estimate of most likely, prudent but not worst case scenarios, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Capital expenditure plans, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes have been taken into account.

The Council is asked to approve these limits and to delegate authority to the Chief Finance Officer for the effective management and monitoring of the authorised limit.

In taking its decisions on this budget report, the Council is asked to note that the authorised limit determined for 2017/18 will be the statutory limit determined under section 3(1) of the Local Government Act 2003 – "A local authority shall determine and keep under review how much money it can afford to borrow".

7. Operational Boundary for External Debt

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.

The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer and is disclosed below with borrowing and other long term liabilities separately identified.

Operational Boundary	**Estimate 2017/18 £'000**	**Estimate 2018/19 £'000**	**Estimate 2019/20 £'000**
Borrowing	106,740	109,724	112,538
Other Long-term Liabilities	500	500	500
Prudential Indicator	**107,240**	**110,224**	**113,038**

The Council is asked to approve these limits and to delegate authority to the Chief Finance Officer for the effective management and monitoring of the operational boundary.

8. Actual External Debt

The Council's projected actual external debt at 31st March 2017 is £89,984 million.

External Debt	**Projected 2016/17 £'000**
Borrowing	89,684
Other Long-term Liabilities	300
Prudential Indicator	**89,984***

It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

* Subject to audit

9. Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

The Authority has adopted the CIPFA Code of Practice and will be reporting its Treasury Management Policy Statement for the 2017/18 financial year to Council of 22nd March 2017.

Treasury Indicators

10. Interest Rate Exposures

While fixed-rate borrowing and investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates on at least part of a treasury management portfolio. This is a best practice approach to treasury management ensuring effective management and control of risk.
It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 99% of its net interest payable on borrowing.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 12% of its net interest payable on borrowing.

This means that the Chief Finance Officer will manage fixed interest rate exposures within the range 88% to 99% and variable interest rate exposures within the range 1% to 12%. The estimated net interest payable in respect of each range is shown in the following Table.

Prudential Indicator	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Fixed Rates			
88%	4,296	4,192	4,106
99%	4,833	4,716	4,619
Variable Rates			
1%	49	48	47
12%	586	572	560

When interest rates are considered to be relatively low then the policy is to borrow at fixed interest rates taking advantage of any potential future market increases.

11. Maturity Structure of Borrowing

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

This is the amount of projected borrowing that is maturing in each period as a percentage of total projected borrowing for fixed rate and Variable rate debt.

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Fixed debt

Period	Upper Limit	Lower Limit
Under 12 months	5%	0%
12 months and within 24 months	6%	0%
24 months and within 5 years	17%	0%
5 years and within 10 years	23%	0%
10 years and above	49%	0%

Variable debt

Period	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

The 2011 Code states for LOBO Loans the Maturity date is now deemed to be the next call date.

12. Total Principal Sums Invested for Periods Longer than 364 Days

There are no proposals for the Council to invest sums for periods longer than 364 days.

The purpose of this Prudential Indicator is for the Authority to contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.