Report to the Finance and Performance Management Cabinet Committee

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Epping Forest District Council

Portfolio: **Finance**

Subject: **Council Budgets 2017/18**

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Recommendations/Decisions Required:

(1) That the Committee considers the Council's 2017/18 General Fund budgets and makes recommendations to the Cabinet meeting on 2 February 2017 on adopting the following:

(a) the revised revenue estimates for 2016/17, which are anticipated to decrease the General Fund balance by £0.62m, including a transfer of £0.2m to the Invest to Save Reserve ;

(b) confirming the target for the 2017/18 CSB budget of £13.11m (including growth items);

(c) an increase in the target for the 2017/18 DDF net spend from £0.26m to £2.0m;

(d) no change in the District Council Tax for a Band 'D' property to keep the charge at £148.77;

(e) the estimated decrease in General Fund balances in 2017/18 of £108,000;

(f) the five year capital programme 2016/17 – 20/21;

(g) the Medium Term Financial Strategy 2016/17 – 20/21;

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement.

(2) That the Committee recommends to the Cabinet that the 2017/18 HRA budget including the revised revenue estimates for 2016/17 be agreed;

(3) That the Cabinet be requested to note that rent reductions proposed for 2017/18 will give an average overall fall of 1%;

(4) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2017/18 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2017/18. The budget uses £108,000 from reserves but the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy (MTFS). Over the course of the MTFS the use of reserves to support spending peaks at £139,000 in 2019/20 and reduces to £78,000 in 2020/21.

The budget is based on the assumption that Council Tax will not increase and that average Housing Revenue Account rents will decrease by 1% in 2017/18.

Reasons for Proposed Decisions:

The decisions are necessary to assist Cabinet in determining the budget that will be placed before Council on 21 February 2017.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. On 2 February 2017 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 21 February 2017.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to this Committee on 14 July 2016. This continued the earlier start to the process and reflected concerns over the reform of financing for local authorities and highlighted the uncertainties associated with:

   a) Central Government Funding
   b) Business Rates Retention
   c) Welfare Reform
   d) New Homes Bonus
   e) Development Opportunities
   f) Transformation
   g) Waste and Leisure Contracts
   h) Miscellaneous, including recession/income streams and pension valuation

3. There is now greater clarity on some issues but several are subject to consultations and will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated using £36,000 from the General Fund reserves. This was possible as the MTFS approved in February 2016 showed a combination of net savings targets and limited use of reserves which still adhered to the policy on reserves over the medium term. The limited use of reserves in 2016/17 was not significant as the MTFS at that time was predicting the use of just under £0.38m of reserves to support spending in the following three years.

5. The revised MTFS presented with the FIP took into account all the changes known at that point and highlighted the potential reductions in New Homes Bonus. This projection showed a need to achieve additional net savings of £250,000 on the 2017/18 estimates, followed by £150,000 in 2018/19 and £100,000 in 2019/20 to keep revenue balances comfortably above the target level at the end of 2019/20.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2017/18 were therefore established as:

   i. The ceiling for CSB net expenditure be no more than £13.11m including net growth/savings.
   ii. The ceiling for DDF net expenditure be no more than £0.26m.
   iii. The District Council Tax to continue to be frozen.

The Current Position

7. The draft General Fund budget summaries are included elsewhere on the agenda. The main year on year resource movements are highlighted in the CSB and DDF lists, which are attached as Annexes 2 and 3. In terms of the guidelines, the position is set out below, after an update on each of the key areas highlighted in the FIP.

a) Central Government Funding

8. At the July meeting of this Committee Members decided that the offer from DCLG of a four-year settlement should be accepted. There are very few authorities that made a different decision as DCLG has announced an acceptance rate of 97%. Given the existence of the four–year settlement and the previously announced figures it would have been a considerable surprise if the RSG or retained business rates had moved much from the numbers reported in July. There were no surprises on these numbers and the figures in the table below for the Settlement Funding Assessment are consistent with those previously announced.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	2.45	1.53	0.74	0.26	-0.28
Retained Business Rates	3.02	3.05	3.11	3.21	3.32
SFA	**5.47**	**4.58**	**3.85**	**3.47**	**3.04**
Decrease £		0.89	0.73	0.38	0.43
Decrease %		16.3%	15.9%	9.9%	12.4%

9. This confirms the bleak picture for the next four years with the SFA reducing over the period by £2.43m or nearly 45%. There has been a lot of talk about full retention of business rates but the reality in the draft figures is disappointing. The table above shows our retained business rate funding increasing from £3.02m in 2015/16 to £3.32m in 2019/20, an increase of £0.3m or 9.9%. During this time the tariff we pay to the Treasury increases by a similar percentage from £10.23m to £11.17m. This lack of any relative improvement in the balance between retention and tariff is disappointing. However, on top of this because our retained business rates exceeds our SFA in 2019/20 we are penalised with an additional tariff that I have shown in the table above as negative Revenue Support Grant. This is a worrying new addition and a disincentive to local authorities to devote resources to economic development.

10. The concept of Core Spending Power was an interesting addition to the draft settlement which set out DCLG predictions on Council Tax and the New Homes Bonus. In doing this some rather brave numbers were used to try and demonstrate that the funding reductions were not as dramatic as the changes in SFA implied. As these are purely theoretical figures and the Financial Issues Paper in July demonstrated how unrealistic they were there seems little point in spending any more time on them here.

11. We have not increased the Council Tax since 2010/11 and this Committee was very clear in July that the Council Tax will not be increased while the General Fund balance

remains comfortably above the minimum requirement.

12. The settlement confirmed the referendum limit for increases in the Council Tax would again be 2%, although, as set out above, this was of little interest to us. A more significant decision was the one not to impose referendum limits on parishes, although this position remains under review for subsequent years. This means if parishes are unable to match the reductions in their Local Council Tax Support (LCTS) funding with efficiencies they are still free to increase their precepts.

13. In July this Committee decided that, in view of Revenue Support Grant disappearing by 2019/20, the LCTS grant to parishes should also be phased out over this period. It was decided to implement this change in equal steps and the parishes have been informed of the funding they will receive for 2017/18 and 2018/19 before the grants stopping in 2019/20.

14. The draft settlement includes a consultation with 8 detailed questions and, following consultation with the Portfolio Holder, the Director of Resources submitted a response. Unfortunately, as the consultation closed on 13 January, it was not possible to put the draft responses to a Member meeting.

b) Business Rates Retention

15. The figures produced by DCLG are generally rather optimistic, as evidenced by the projections for Core Spending Power. However, one area where we have seen the DCLG consistently under estimate our income is business rates. This is illustrated in the table below.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
DCLG	2.91	2.97	3.02	3.05	3.11	3.21	3.32
Actual/Est.	2.97	3.64	4.40	4.38	4.30	4.35	4.45
Surplus	**0.06**	**0.67**	**1.38**	**1.33**	**1.19**	**1.14**	**1.13**
Levy	0.03	0.34	0.24	tbc	tbc	tbc	tbc

16. For both 2013/14 and 2014/15 as the Council was not in a business rates pool we had to pay over half of the income above the DCLG estimate as a levy, in addition to the tariff that had already been paid. This meant payments for these years of £28,000 and £335,000 in addition to the tariff payments of £9.85m and £10.04m. As the Council is in a business rates pool for 2015/16 and 2016/17 no levy should be payable to the Treasury. However, for 2015/16 two of the pool members required safety net funding and so £238,000 was lost to the internal pool levy to support these authorities. Despite this levy the Council was still better off for pooling by £118,000.

17. The table above illustrates that the rate of growth in business rate income has been far higher than DCLG estimated. Part of this divergence may have been caused by the number of adjustments to the scheme after it was constructed. These include the extension of small business rate relief, the capping of inflationary increases and the introduction of retail rate relief. As all of these adjustments reduce the bills that Councils would have issued compensation is paid under what is known as Section 31 grant. This has become so significant now that for 2015/16 revised and 2016/17 it was shown separately in the MTFS. In 2014/15 the Council received over £0.75m in Section 31 grant, this was anticipated to reduce to £0.7m in 2015/16 and £0.4m in 2016/17 due to retail relief coming to an end.

18. Whilst the amounts included in the MTFS exceed those calculated by DCLG they are still felt to be prudent. There is very little growth anticipated after 2015/16 despite the building of the retail park and other known likely developments within the district. Particular caution is needed over the estimates for 2017/18 as this is the first year which will be billed using the new rating list. DCLG have stated that they intend the introduction of the new list, and the associated adjustments to tariff and top ups, should leave authorities no better or worse off. This would be quite an achievement and will inevitably require adjustments in 2018/19 to correct for where estimates have been wrong in 2017/18.

19. The complexity around the introduction of the new list has been made worse by changes to transitional relief and the appeals system. There are currently two levels of transitional relief but for reasons best known to the DCLG the new list will have three levels. This would have been a challenge even if the change had been highlighted in advance and regulations issued in a timely manner to assist the detailed calculations. The reality was much worse as the change came out of the blue and very late in the day. This has created a situation where the return (called a NNDR1) to DCLG of our business rates figures that we are supposed to submit by the end of January cannot be produced as the software will not be ready in time. This is the case for all three of the large suppliers of business rates software.

20. This has then been compounded by the introduction of a new system of "Check, Challenge, Appeal" for businesses to use in challenging their bills. It is hoped that in the long term this system will be better for all parties and help reduce the very lengthy delays that are currently experienced. However, the introduction of a new system means we have no past data that can be used to estimate the number of appeals and how they will arise and be dealt with through the life of the valuation list. So 2017/18 will be a particularly challenging year for estimating business rates and once we have been able to produce our NNDR1 we may need to update the figures that are included in this report.

21. Having mentioned the difficulty with new appeals we should not lose sight of the hundreds of appeals that are still outstanding on the current list. Calculating an appropriate provision for appeals remains extremely difficult as there are several hundred appeals still outstanding with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall.

22. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem. The total provision against appeals is currently close to £5m.

23. The announcement of 100% local retention of business rates was widely welcomed but there are a couple of popular misconceptions to correct. Firstly, 100% retention will not mean an increase in the business rate income we have to spend from £3.3m to £33m. What it actually means is that 100% will be retained within local government and no amounts of either base funding or growth will be paid over to the Treasury. The second myth is that 100% retention will solve funding problems for the local government sector. It has been made clear by the Government that the policy will be fiscally neutral, which means any additional funding will be matched by a transfer of additional responsibilities that have previously been centrally funded. This may not be a good thing as any new responsibilities are likely to be demand led and so will increase if we find ourselves in a recession, which will be the time when business rates funding is reducing. This means that through the reform process local government as a whole will need to try and limit

the amount of risk that is transferred and that some form of safety net is maintained.

24. The new system is meant to be in place by 2020/21 at the latest, DCLG had indicated a desire to achieve implementation by 2019/20 but this now looks unlikely. This process is being managed by a Steering Group and five working groups covering needs and redistribution, systems design, responsibilities, accounting and accountabilities and business interests. These groups are a mixture of people from local authorities, DCLG the Local Government Association and various business representative groups. Another consultation is expected early in 2017/18 and when it is issued it will be shared with this Committee.

25. It has been mentioned above that the Council is in a business rates pool for 2016/17. Monitoring so far indicates that this should still prove beneficial but we are reliant on the outcomes from the other pool members. The authorities comprising the pool for 2016/17 have indicated they want to remain in the pool for 2017/18. If it becomes evident either through the subsequent outturns for 2016/17 or monitoring for 2017/18 that this Council will not benefit financially from pooling a recommendation will be made not to pool in 2018/19.

c) Welfare Reform

26. When considering the scheme of Local Council Tax Support (LCTS) for 2016/17 it had been feared that reductions in tax credits would increase demand for LCTS. This was a particular concern as it was already predicted that the LCTS scheme would fall short of being self-financing in 2016/17. In order to try and limit the shortfall the scheme was changed significantly for the first time since its introduction with the maximum level of support being reduced from 80% to 75%. Now with no major reduction in tax credits and the introduction of the National Living Wage the trend of reductions in the LCTS caseload may continue and bring the scheme back closer to self-financing. No significant change is being made for 2017/18 to allow sufficient time to understand the consequences of the change for 2016/17.

27. It is worth taking this opportunity to mention one of the other welfare reforms. The Benefits Cap was introduced to limit the total amount of benefits a household could receive in a year to £26,000. The introduction of this cap did not have a dramatic impact across the district. However, the reduction by £6,000 to £20,000 is likely to cause greater changes in people's behavior and working patterns. The lower cap has been phased in across the country during 2016/17 and so far 150 cases in this district have been affected, somewhat lower than the 220 expected. As this has been implemented late in the year, the effects of this change will be more evident in 2017/18.

28. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit (UC). Despite delays, confusion and critical reports from the National Audit Office the scheme still continues to progress (slowly). One of the main architects of the scheme was Lord Freud and he surprisingly retired from Government in December after six years as the Minister for Welfare Reform. Inevitably this has led to renewed speculation about the future of UC. The roll out of UC now has a timetable and this district is scheduled for "full service" in September 2018, although there is still no clarity over the process for the migration of our existing housing benefit claims to UC or the role local authorities will perform under the new system.

29. One other aspect of welfare reform that continues is the DWP & DCLG achieving their savings through reducing the grant paid to local authorities to administer housing benefit and LCTS. Following a substantial reduction of £59,000 in 2016/17 we have been advised that the reduction for 2017/18 will be £42,000, which is a cut of over 8%.

d) New Homes Bonus

30. The consultation on the proposed changes to NHB closed on 10 March 2016 and DCLG then kept us all waiting for nine months before announcing the proposed changes as part of the draft settlement. Given the savage nature of the cuts to NHB it would have been helpful to have been told about them more than a month before we are attempting to set a budget.

31. The size of the reductions is best illustrated with the use of tables, so the first table below shows what we had allowed for in the MTFS and the second one shows what we will now be amending the figures to.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
CSB	2.1	2.1	1.6	1.6
DDF	0.6	0.1	-0.2	0
NHB in old MTFS	**2.7**	**2.2**	**1.4**	**1.6**
Change in CSB	0	0	0.5	0

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
CSB	2.1	2.0	0.9	0.7	0.2
DDF	0.6	0.0	0.0	0	0
NHB in new MTFS	**2.7**	**2.0**	**0.9**	**0.7**	**0.2**
Change in CSB	0	0.1	1.1	0.2	0.5

32. In anticipation of the changes to NHB only £2.1m of the £2.7m received in 2016/17 was included in the CSB and a further reduction of £0.5m had been allowed for in 2018/19. It had seemed quite prudent to allow for a reduction of £1.1m in NHB, however what we now see is a reduction of £2.5m over the period from 2016/17 to 2020/21.

33. The reason for this much larger reduction is the introduction of a baseline of 0.4% for 2017/18. This means that only growth above 0.4% of the taxbase qualifies for NHB, in practical terms this reduces the number of qualifying properties from 241 to 11 or in cash terms the additional NHB for 2017/18 will be £16,000 instead of £320,000. The consultation included the possibility of a baseline at 0.25% so the imposition of this much higher baseline was a nasty surprise. Having a baseline at 0.4% eliminates most of our growth and this is likely to be the case going forward as well, hence the reduction to £0.2m by 2020/21.

34. This larger than anticipated cut seems to have been triggered by the urgent need to provide funds for social care. But it is dangerous to make policy up as you go and figures from the Local Government Association show that 57 (1 in 3) adult social care authorities will be worse off because of the switch in funding from NHB to Social Care Grant. So whilst county councils, who only get 20% of the NHB for their area, will have benefitted from the change most unitary authorities, who get 100% of the NHB for their area, will be worse off.

35. The consultation included a range of other proposals to reduce NHB, the first of which was to reduce the number of years that the bonus is payable for from 6 to 4. This is being implemented with a reduction to 5 years in 2017/18 followed by the full reduction to 4 years in 2018/19. The proposals to withhold NHB from authorities that have not got a Local Plan in place or to reduce payments where planning approval has been granted on appeal have not been introduced for 2017/18 but will be considered again for

2018/19.

36. The consultation included the possibility of protection for authorities that are particularly adversely impacted by changes to NHB, but the settlement did not allow for any transitional funding. It is still possible that the final settlement may provide some relief but to be prudent no additional support has been anticipated in the MTFS.

e) Development Opportunities

37. The construction of the retail park is now progressing well, although there are still issues with the highways department at Essex County Council (ECC) causing delays. These issues are being addressed with ECC by the project managers (Whyte, Young & Green) and the external solicitors (Beechcrofts). Negotiations are also continuing with potential tenants and indications are that the projected rent levels should be achieved and the budgeted allowance for tenant incentives will not be exceeded.

38. Our professional advisers have stated that an annual rental income of £2.7m is achievable. The MTFS includes a prudent view, reducing this to £2.2m to allow for any shortfall, management costs and interest. No change in assumptions has been made at this stage as any changes now would inevitably require further amendment later for the better information on rent levels and the opening date.

39. Progress has finally been made with the mixed use re-development of the St Johns area in Epping. The land acquisition from ECC took much longer than anticipated but was concluded in December. It is also worth mentioning the former Winston Churchill pub site which is progressing well and in which we have retained an interest in the ground floor retail element. The income from this interest is anticipated to be approximately £350,000 and should commence in 2018/19. Other possibilities are being evaluated as part of the Local Plan process.

40. Delays in the new housebuilding programme and the development schemes should mean that it is possible to finance the capital programme in 2016/17 without any additional borrowing. However, this will not be possible for 2017/18 and going forward we will need a different way of thinking as capital will no longer be freely available and borrowing costs will be a key part of any options appraisals.

f) Transformation

41. The target of £100,000 of savings has been achieved but as the savings have been generated across the Council they are reflected in the estimates for the relevant area and not grouped together in one place. There are many transformation projects underway that will continue on into 2017/18 and beyond. To keep Members informed an updating report is made to every meeting of the Cabinet. The key accommodation review is well underway and a report is scheduled for Cabinet in March to determine the future of the current civic office site. Strong progress has also been made with the work on customer contact and this has the potential to significantly change the structure and working practices of the Council.

42. As part of the revised estimates for 2014/15 Members created an Invest to Save budget of £0.5m. This fund is intended to finance schemes which can produce reductions to the net CSB requirement in future years. This fund has proved popular with Members and officers and the number of ideas generated means it is necessary to allocate additional funding of £0.2m in the 2016/17 revised estimates. An update on how the various schemes are progressing was made to the November meeting of this Committee.

g) Waste and Leisure Contracts

43. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and SLM for leisure. Following an extensive competitive dialogue procedure Biffa took over the waste contract in November 2014. The contract hand over and the first six months of the new service went well. But in May 2015 the service was re-organised on a four day week basis and considerable difficulties were encountered.

44. The service was procured at a lower cost and the savings were included in the MTFS. However, issues with recycling and service delivery mean that CSB growth of nearly £0.5m has been included in the revised estimates for 2016/17 together with £0.2m of DDF expenditure. These costs are not sustainable in the long term and various options are already being discussed with Biffa at the Waste Management Partnership Board to examine how overall costs can be reduced.

45. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. The new contract will start on 1 April 2017 with a new provider for a period of 20 years. Over the lifetime of the contract the average CSB savings will be more than £1m per year. The payments under the contract vary considerably between years and so the CSB savings are phased in over the first four years of the contract. If the whole CSB saving was included at the start of the contract there would need to be substantial transfers to the DDF for the first few years so it is better within the MTFS to match the economic reality of the contract.

46. The contract assumes investment in both new and existing leisure facilities and outline planning permission has already been obtained for a replacement facility in Waltham Abbey. Given the length and value of the contract it may be necessary to amend some of the assumptions and amounts as time progresses but the figures currently included in the MTFS are prudent.

h) Miscellaneous

47. In addition to the significant items mentioned above there are a number of other issues that need to be borne in mind. Firstly, the position in terms of the general economic cycle and the potential for a recession. The economy goes in cycles and, regardless of our position relative to the European Union, many economic commentators have been predicting that the current period of low but sustained growth was due to finish and that a recession is somewhat overdue. There is no point in speculating on the length and depth of a recession but we do need to be wary of the consequences of a slowdown in the economy. In any economic downturn property related income streams such as development control and rent from our commercial estate suffer. This reduction in income in a downturn will be magnified as the proportion of our income coming from retained business rates increases. Added to the reduction in income will be increased pressure on services with greater spending on benefits and homelessness. Clearly it is in no one's interests to talk down the economy and talk up a recession but in considering the MTFS this subject should not be ignored.

48. We are now in the last year of making pension contributions based on the March 2013 fund valuation, which showed the scheme to be 77% funded. This has improved strongly over the last three years and the March 2016 valuation shows that the scheme is now 85% funded. The options for payments over the next three years were considered by the November meeting of this Committee. It was decided to reduce the period of deficit funding to 19 years and this has created a small amount of CSB growth in 2018/19 and 2019/20.

49. The other area normally considered here is the current state of the Council's significant income streams. There are some concerns with local land charges and fleet operations but these are more than outweighed with the positive positions on off-street car parking and development control. There are rumours that DCLG may allow more freedom in the future on setting planning fees and this would be welcomed as it is not always the case that the current fees cover the amount of work necessary to deal with a planning application.

The ceiling for CSB net expenditure be no more than £13.11m including net growth

50. Annex 2 lists all the CSB changes for next year. The MTFS in July included net CSB savings of £706,000 for 2017/18 and the revised 2016/17 budget had net growth of £538,000. The most significant item not already covered above is the new apprenticeship levy. This requires a significant expansion of the existing apprenticeship programme with CSB growth of £129,000 in 2017/18. As overall supervision and monitoring of the apprentices is through HR the growth is shown within the Resources Directorate although the apprentices will be employed across the Council.

51. Overall with the combined savings, and with inflation being lower than predicted, the CSB position for 2017/18 is very close to that targeted in July. In July the MTFS had a CSB target for 2017/18 of £13.107m and the General Fund summary at Annex 1 shows that the CSB total is £45,000 below this at £13.062m. Therefore it is proposed to leave the CSB target at £13.11m.

The ceiling for DDF net expenditure be no more than £0.26m

52. The DDF net movement for 2017/18 is £1.994m, Annex 3 lists all the DDF items in detail. The largest cost item is £1.028m for work on the Local Plan. The Local Plan is a substantial and unavoidable project and from 2016/17 to 2018/19 DDF funding of £2.443m is allocated to it. The Director of Neighbourhoods has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it. Other significant items of expenditure include £218,000 for recycling schemes (this is spending funds provided by DCLG in 2015/16) and £104,000 for the planned building maintenance programme.

53. At £1.994m the DDF programme is substantially above the target for 2017/18. Although this is partly off-set by the reduction in 2016/17 as the predicted spend in the previous MTFS of £1.473m has been reduced by £0.327m to £1.146m. It is proposed to increase the DDF ceiling for 2017/18 from £0.26m to £1.994m to deliver the schemes Members have supported. The DDF is predicted to require a transfer from the General Fund Reserve of £0.5m in 2018/19 to ensure that it continues to have funds available through to the end of the period covered by the MTFS.

The District Council Tax be frozen

54. Members have indicated that they want to continue to freeze the Council Tax over the life of the MTFS.

That longer term guidelines covering the period to March 2018 provide for

The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement *whichever is the higher;*

55. Current projections show this rule will not be breached by 2020/21, by which time reserves will have reduced to £5.7m and 25% of net budget requirement will be £3.2m.

Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.

56. The outturn for 2015/16 used £2.021m (including the use of £3m to fund capital projects) from reserves and the revised estimates for 2016/17 anticipate a further reduction of £0.424m. This would leave the opening revenue reserve for 2017/18 at £6.652m and with the estimates for 2017/18 showing a use of £108,000, reserves at the end of 2017/18 would be just over £6.5m. The Medium Term Financial Strategy at Annex 5 shows deficit budgets throughout the period. The level of deficit peaks at £139,000 in 2019/20 and reduces to £78,000 in 2020/21, although this is achieved through additional CSB savings of £300,000 in 2018/19, £250,000 in 2019/20 and a further saving of £150,000 in 2020/21.

The Local Government Finance Settlement

57. This has already been covered in some detail above and whilst the figures are currently subject to consultation it is not anticipated that they will change significantly.

The 2017/18 General Fund Budget

58. Whilst the position on some issues is clearer now than it was when the FIP was written there are still significant risks and uncertainties. The largest risk is now around the new valuation list for 2017 together with the changes to transitional relief and the amendments to the appeals process. This makes it extremely difficult to predict the level of income from retained business rates for 2017/18 and subsequent years.

59. The other area of concern highlighted in the section on Business Rates Retention is the large number of appeals that are still outstanding against previous rating assessments and the difficulty in calculating an appropriate provision. The backlog of appeals with the Valuation Office is reducing but the single largest appeal against us, on the property with the £6m rateable value, is still to be settled and so remains a significant financial risk.

60. It is clear that the Government now wants local authorities to be reliant on income from their activities and local taxation rather than central grants. This is a direction that we had seen coming and the work done to move the Council towards self-sufficiency means we are in a better position now than many other authorities.

61. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 5. Annexes 5a and 5b are based on the current draft budget with no Council Tax increase (£148.77 Band D) throughout the period of the strategy.

62. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding will reduce as set out in the draft settlement, with Revenue Support Grant turning negative in 2019/20.
- CSB growth has been restricted with the CSB target for 2017/18 of £13.11m achieved. Known changes beyond 2017/18 have been included but if the new leisure contract fails to yield the predicted savings other efficiencies will be

necessary.
- It has been assumed that the retail park will achieve its revised opening date in 2017 and that income will be in line with the consultant's projections.
- It has been assumed that no transitional relief will be provided to reduce the impact of the reduction in new homes bonus.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme a transfer in of £0.5m from the General Fund Reserve will be required in 2018/19 to ensure funds are available through to the end of 2020/21.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets during the period will reduce the closing balances at the end of 2020/21 to £5.7m or 45% of NBR for 2020/21, although this can only be done with further savings in 2018/19 and subsequent years.

The Housing Revenue Account

63. The balance on the HRA at 31 March 2018 is expected to be £2.022m, after a surplus of £494,000 in 2016/17 and a deficit of £1.674m in 2017/18. The estimates for 2017/18 have been compiled on the self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

64. The process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other is no longer with us. What we have for the next three years is a requirement to reduce rents by 1%. This change was one of several that have impacted on the HRA Business Plan and a review will be undertaken during 2017/18 to determine the necessary measures to respond to these changes.

65. Members are recommended to agree the budgets for 2017/18 and 2016/17 revised and to note that although there is a deficit in 2017/18 the HRA has adequate ongoing balances.

The Capital Programme

66. The Capital Programme at Annex 6 shows the expenditure previously agreed by Cabinet. Members have stated that priority will be given to capital schemes that will generate revenue in subsequent periods and this has been emphasised by stating that new borrowing should only be taken out to finance schemes with positive revenue consequences. This position has been included in previous Capital Strategies and has been reinforced by the new position that capital spending will require borrowing and thus impacts on the general fund revenue balance through interest payments.

67. Annex 6f sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which totals nearly £125m over five years, it is anticipated that the Council will still have £1.7m of capital receipt balances at the end of the period (although these are one-four-one amounts to be used in the house building programme). It should be noted that a number of schemes are currently being considered and that these could involve additional expenditure to fund developments.

Risk Assessment and the Level of Balances

68. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2017/18. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 21 February will consider the recommendations of the Cabinet on the budget for 2017/18 and will determine the planned level of the Council's balances. Members will

consider the report of the CFO at that meeting.

<u>The Prudential Indicators and Treasury Management Strategy 2017/18</u>

69. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements will be set out in a separate report to Cabinet on 2 February.

70. Due to the £185m of debt for the HRA self-financing the Council is no longer debt free and the Prudential Indicators and Treasury Management Strategy have been amended for this. Ongoing difficulties persist in financial markets but higher capital requirements have eased concerns about some banks, Arlingclose still advise a very restricted counter party list but have allowed some increase in suggested investment periods.

71. The size of the Capital Programme means additional borrowing will be required during 2017/18. Members have indicated that borrowing should only be undertaken to finance schemes that produce net savings overall and this principle will be included in the updated Treasury Management Strategy.

Resource Implications:
The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:
This Committee previously considered the draft growth lists and various invest to save suggestions.

Background Papers:
Financial Issues Paper – see agenda of 14 July 2016
Draft Growth List – see agenda of 10 November 2016

Impact Assessments:
The Directorate proposing the growth or savings will have considered the equalities impacts for each budget proposal.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems could arise in the medium term.