Report to the Resources Select Committee

Report Reference: FPM-006-2017/18
Date of meeting: 17 October 2017

Portfolio: **Finance**

Subject: **Financial Issues Paper**

Responsible Officer: **Bob Palmer – (01992 – 564279)**
Democratic Services Officer: **Adrian Hendry - (01992 - 564246)**

Recommendations/Decisions Required:

1. To recommend to the Cabinet the continuance of the budgetary framework approved by Council in February, including guidelines for 2018/19 covering:

(a) The Continuing Services Budget, including growth items;

(b) District Development Fund items; and

(c) The District Council Tax for a Band 'D' property

2. To recommend to the Cabinet the agreement of the updated Medium Term Financial Strategy for the period to 2020/21, and the communication of the Medium Term Financial Strategy to staff, partners and other stakeholders.

3. To note the implementation of the previously agreed reductions in parish support grants in equal stages to achieve their complete removal by 2019/20.

Executive Summary:

This report provides a framework for the Budget 2018/19 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Central Government Funding
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Development Opportunities
- Transformation
- Waste and Leisure Contracts
- Miscellaneous, including recession and pay awards

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2018/19.

Please noted that this report first went to the Finance and Performance Management

Cabinet Committee in July 2017.

Reasons for Proposed Decisions:

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

Other Options for Action:

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

Report:

General Election(s)/Brexit

1. In last year's paper I put a section on Brexit and the potential impacts at the start ahead of the usual financial update report. I did this because of the huge uncertainties in the immediate aftermath of the referendum and so a year on it is necessary to update these comments for the arguably greater uncertainty that now exists with a hung Parliament. The general election was called by the government in the expectation of a larger majority to strengthen the Prime Minister's hand in Brexit negotiations. The outcome has weakened the negotiating position and greatly limited the legislative ambition of the government. There is a separate section later on business rates but the 100% retention of business rates and the fair funding review now seem unlikely to proceed. Questions also exist over policies on planning and housing, such as the financial contribution we will be required to make to support right to buy for housing association tenants. Given this position there was little point updating the MTFS for anything other than the 2016/17 outturn so the attached MTFS is very similar to the one approved in February.

2. A previous Chancellor of the Exchequer had stated that a decision to leave the EU would trigger an emergency budget with higher taxes and lower public spending. This did not happen and the economy has continued to grow at a slow pace, although the value of the pound relative to other currencies has declined and this is one of the contributory factors in the increases now being seen in inflation. The mood following the general election seems to be supportive of an easing of the austerity belt, although this still needs to move from comments in the press to firm policy announcements. The next set of predictions from the Office for Budget Responsibility are eagerly awaited. Changes in policy and growth predictions will require further action on the public finances, which could be higher taxes, lower spending or more borrowing. It is likely that the solution will be a combination of the three alternatives and even though more money may be found for social care it is unlikely that district councils will see any increase in funding.

3. The political consequences are still to fully unfold and it remains to be seen how long the Prime Minister can rely on both the Democratic Unionist Party and her own backbenchers. The difficulties in governing from such a position were evidenced by the abortion issue and content of the Queen's Speech. Policies such as devolution and the fair funding review are not universally popular and would have been challenging for a government with a strong majority to push through. There now seems little prospect of any form of reorganisation for local authorities or any reform of the system of local authority financing. The uncertainty and delay around these issues could be further compounded if we have another general election and possibly a different Prime Minister or a different government.

4. It will be many years before we can fully evaluate the effects of the election and Brexit but

what we can say at the moment is that for district councils it has increased political uncertainty and reduced funding prospects.

General Fund Outturn 2016/17

5. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2016/17 is currently being audited so some amendments may still be made to the outturn figures. In summary the General Fund Revenue outturn for 2016/17 shows that Continuing Service Budget (CSB) expenditure was £215,000 below the original estimate and £929,000 below the revised, which allowed an additional £1 million of capital expenditure to be charged to revenue. The single largest variance was an amount of £150,000 that had been put aside to fund potential settlement agreements was largely unused.

6. The revised CSB estimate for 2016/17 increased from £13.252m to £13.966m with the actual being £13.037m. There were underspends of £157,000 on salaries, £133,000 on housing benefits, £103,000 on various consultancy costs with additional rental income of £112,000 and the addition to the bad debt provision was £83,000 less than budgeted. The main in year changes related to increased costs of waste management £469,000 and increased staffing in the planning policy team £75,000 but these were offset to a degree by the council tax collection technical agreement £200,000 and an increase in development control income ££155,000. Other savings were seen on car leasing £34,000 and internal audit £29,000. The only other cost increase worth mentioning is the £40,000 reduction in administration subsidy receivable from the Department for Work and Pensions.

7. Net DDF expenditure was £1,542,000 lower than the revised estimate. However £1,301,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2017/18, giving a net underspend of £241,000. The largest variance was £1,063,000 on Neighbourhoods, of which £862,000 is money received from the DCLG to pursue planning initiatives. None of this funding had been confirmed when the revised budget was set and it is all being carried forward to spend in 2017/18. In Resources there was an underspend of £266,000, which includes £92,000 for building maintenance as projects have been delayed pending the outcome of the accommodation review.

8. The only significant variance on the non-directorate items within the DDF was additional income of £158,000 on the DDF element of the council tax collection technical agreement. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £4.188m at 31 March 2017. However, most of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan and related items such as the work on Garden Towns.

9. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund revenue balances consists of the CSB overspend and the variance on the use of reserves to fund capital expenditure. This translates into a reduction in balances of £1.065m compared to the revised estimate of a decrease of £0.777m. Although it must be remembered that the actual deficit has been increased by charging an additional £1 million of capital expenditure to revenue. If the capital expenditure had been financed differently the General Fund would have been close to breaking even.

The Updated Medium Term Financial Strategy

10. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2016/17 actuals but as very little additional information has become available since February no other changes have been made. The annex (1b) shows that revenue balances will reduce by £45,000 in 2017/18 and then further in subsequent years by £119,000 in 2018/19, £143,000 in 2019/20 before reducing by £113,000 in 2020/21.

11. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted

balance at 1 April 2018 of £6.162m represents 48% of the anticipated NBR for next year (£12.801m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2021 the revenue balance will have reduced to £5.287m. This still represents over 41% of the NBR for 2020/21 (£12.749m).

12. The financial position as at 1 April 2017 was not significantly different from what had been anticipated, reflecting the success of the cost control measures put in place. The robustness of the revenue account is highlighted by the underlying break even position for 2016/17 mentioned above.

13. The target saving for 2018/19 has been left at the original level of £300,000. This is followed by targets of £250,000 for 2019/20, and £150,000 for 2020/21. These net savings could arise either from reductions in expenditure or increases in income. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

14. Estimated DDF expenditure has been amended for carry forwards and it is anticipated that there will be £564,000 of DDF funds available at 1 April 2021. The four-year forecast approved by Council on 21 February 2017 predicted a DDF balance of £381,000 at the end of 2020/21, although both projections are assuming a transfer in of £500,000 from the General Fund balance in 2018/19.

15. Capital balances have been updated for recent outturn figures and it is not anticipated that there will be any unallocated capital receipts available in future. With the continued efforts to become self-financing, assisted by the certainty of the four year settlement, through revenue generating capital schemes it is inevitable that some borrowing will be required during 2017/18. We will seek to keep borrowing to a minimum through the use of reserves to fund capital expenditure where appropriate.

Continuing Services Budget

16. The CSB underspend against revised estimate was £0.929m, compared to a £0.407m overspend in 2015/16. Within the underspend there was the usual saving on the salaries budget. The salaries budget in total is £22.5m and the General Fund CSB underspend was approximately £157,000. It is anticipated that not all posts will be filled throughout the year so a vacancy allowance of 1.5% is included in the estimates to reflect this.

17. There is currently an under spend on the salaries budget in 2017/18 and this is expected to continue so the vacancy allowance will be reviewed and increased if appropriate. The aggregate underspend this year arose largely from one off factors, as set out in paragraph six above.

18. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Retained NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to significantly increase the council tax, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that Council Tax would not increase over the life of the MTFS.

19. The updated four-year forecast (annexes 1a & b) show that the budget for 2017/18 misses that objective, as funding from Government Grants and Local Taxpayers is £45,000 below CSB. However, given the overall position and the strength of the Council's reserves this is not a significant problem.

Central Government Funding

20. The position is unchanged from February but that would normally be the case, particularly as the settlement included draft figures out to 2019/20. For background the section from the budget report is repeated below.
21. At the July 2016 meeting of the Finance and Performance Management Cabinet 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 previously. There were no surprises on these numbers and the figures in the table below for the Settlement Funding Assessment are consistent with our expectations.

	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%

22. 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.

23. 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 I have previously demonstrated how unrealistic they are, there seems little point in spending any more time on them here.

24. The Council has not increased the Council Tax since 2010/11 and the Finance and Performance Management Cabinet Committee was very clear in July 2016 that the Council Tax will not be increased while the General Fund balance remains comfortably above the minimum requirement.

25. 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.

26. In July 2016 the Finance and Performance Management Cabinet 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.

27. Before the general election a fair funding review was underway to examine how the funding formulae need to change to provide more support to those authorities with the greatest need. There was no mention of this work in the Queen's Speech and the government's deal with the Democratic Unionist Party has made this a far more difficult project. Under the current system funding for the devolved administrations is calculated using the Barnett formula, and applying this formula suggests that if Northern Ireland is to receive an additional £1 billion then Wales should receive £1.7 billion and Scotland £2.9 billion. It has been made clear that Wales and Scotland will not be receiving additional funding and in response Wales' first minister Carwyn Jones has stated "It all but kills the idea of fair funding for nations and regions". It seems most likely that the existing approach of an annual reduction being applied to the old formula amounts to achieve the desired overall reduction in funding will be continued but what that will mean after 2019/20 is anyone's guess.

Business Rates Retention

28. We are now into the fifth year of business rates retention and it is evident that DCLG have under estimated the Council's income from 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	4.59	4.56	4.60	4.40
Surplus	**0.06**	**0.67**	**1.38**	**1.54**	**1.45**	**1.39**	**1.08**
Levy	0.03	0.34	0.24	0.37	tbc	tbc	tbc

29. 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. From 2015/16 a reduced levy is payable to the members of the pool who are top-up authorities, Essex County Council and Essex Fire Authority. The net effect of the pooling is that this council was better off for pooling by £118,000 in 2015/16 and £393,000 in 2016/17.

30. 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 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. With the introduction of the new rating list from April 2017 there were further new reliefs and it is evident that Section 31 grant will be with us for many years to come.

31. 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 2016/17 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.

32. The complexity around the introduction of the new list has been made worse by changes to transitional relief and the appeals system. There were two levels of transitional relief but for reasons best known to the DCLG the new list has three levels. 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 is a particularly challenging year for estimating business rates and the figures will continue to be carefully monitored.
33. Having mentioned the difficulty with new appeals we should not lose sight of the hundreds of appeals that are still outstanding on old lists. 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.

34. 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 £3.5m.

35. 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. Before the election the Local Government Association (LGA) had accepted the Government's position on fiscal neutrality. However, after the election the LGA has taken a less passive stance and is now campaigning for the predicted £5.8 billion funding gap by 2020 to be met before any additional responsibilities are transferred.

36. The new system was meant to be in place by 2020/21 at the latest, DCLG had indicated a desire to achieve implementation by 2019/20 but this is now impossible. There was no mention of 100% retention in the Queen's Speech and this policy now seems to be on hold.

37. It has been mentioned above that the Council has benefitted significantly from being in a business rates pool and consequently it has remained in a pool for 2017/18. Monitoring so far indicates that this should still prove beneficial but we are reliant on the outcomes from the other pool members. If it becomes evident either through the monitoring for 2017/18 that this Council will not benefit financially from pooling a recommendation will be made not to pool in 2018/19.

Welfare Reform

38. The scheme of Local Council Tax Support (LCTS) for 2016/17 saw the first significant change since LCTS replaced Council Tax Benefit in 2013/14. Concerns about the LCTS scheme falling short of being self-financing led to the maximum level of support being reduced from 80% to 75%. Overall the scheme has been a success and it has been possible to collect some Council Tax from most of the people receiving support. If support is reduced much further any financial gain from increasing the amount payable could be more than outweighed by additional bad debts from those who stop making an attempt to pay. It has to be emphasised that any increase in income from reducing LCTS is only a genuine increase if you can collect the money. No significant change is being proposed for 2018/19 to allow sufficient time to understand the consequences of changes with the National Living Wage and tax credits and the effect that these will have on caseload.

39. 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 was phased in across the country

during 2016/17 and early indications were that several hundred claimants in this district would be affected. Currently there are 157 cap cases with the weekly loss of benefits ranging from £0.03 to £253.35. The average weekly loss is £45.94 and this amount is deducted from the persons housing benefit entitlement.

40. 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). Apparently the DWP are reviewing what is included within UC and are considering removing some of the more difficult elements. The use of UC for new claims is being rolled out based on Job Centres. What this means for the Epping Forest district is that some post codes will be on UC from September this year but the district will not be fully covered for new claims until September next year. This fragmented approach is not helpful for residents or staff and there will inevitably be some confusion. Clarity over the time period and process for the migration of our existing housing benefit claims to UC and the role local authorities will perform under the new system is still awaited.

41. One other aspect of welfare reform that continues is the DWP achieving their savings through reducing the grant paid to local authorities to administer housing benefit. Following a relatively modest reduction of £22,000 in 2015/16, £40,000 was taken in 2016/17 and 2017/18 will see a further reduction of £42,000, which is a cut of over 10%.

New Homes Bonus

42. The reductions in New Homes Bonus (NHB) for 2017/18 were far greater than had been anticipated and an extract from the Budget report is provided below to remind Members of the background.

43. 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

44. 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.

45. 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.
46. 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.

Development Opportunities

47. There is a separate Cabinet Committee for co-ordinating asset management issues so I do not intend to devote too much space to developments. However, it is necessary to touch briefly on the number of opportunities that currently exist in the district and their potential benefits. This is particularly important given the increased significance of retained business rates.

48. There has been some slippage in the programme for the retail park, although this relates more to the highway works than the construction of the park. The highways issues are likely to cause that part of the project to be over budget but the scheme as a whole is not expected to be significantly above budget. Most of the large units have now been let and several of the tenants are now fitting out their stores. 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.

49. 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.

50. Progress has been less encouraging with the mixed use re-development of the St Johns area in Epping. The land acquisition from ECC took much longer than anticipated and the negotiations about provision for a cinema in the development agreement have been protracted. However, there is an end in sight to this saga and it is anticipated that the development agreement will be concluded this month. 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 will be evaluated as part of the Local Plan process.

51. The underspend on the capital programme, and the additional revenue contribution from the General Fund, meant it was 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 need to be considered as part of any options appraisals.

Transformation

52. Good progress has been made on the accommodation review and Members have made the strategic choice to concentrate services in the new building so the Conder Building and rear extension part of the site can be freed up for redevelopment. The second phase of the review is now underway to produce indicative floor plans, a sequential schedule of works and more detailed costings. This should allow Cabinet in December to determine the future configuration of the Civic offices and make appropriate provision in the 2018/19 budget.

53. The Head of Customer Services has now been in post for over 6 months and good progress has been seen on a number of initiatives. In particular, strong progress has been

made with the work on customer contact and this is likely to significantly change the structure and working practices of the Council.

54. 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 meant it was necessary to allocate additional funding in 2016/17. At the end of 2016/17 there was £406,000 in this fund, although only £59,000 of this was unallocated.

Waste and Leisure Contracts

55. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and Places for People 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.

56. 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 was 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 being discussed with Biffa at the Waste Management Partnership Board to examine how overall costs can be reduced in future years.

57. 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 started on 1 April 2017 with Places for People 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.

58. 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.

Miscellaneous

59. 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. I raised this issue last year and the economy has continued on a path of very limited growth but is now under pressure from higher inflation. 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 a paper highlighting financial issues it is a subject that cannot be ignored.

60. The Council's single largest cost is the annual pay bill of around £22m. For several years a pay cap of 1% has limited increases in pay. However, following the election different views have been expressed by Ministers and speculation is now rife around a possible relaxation of the cap and how this could be paid for. One possibility would be to reverse the decision to inflate business rates by the consumer prices index in future and revert to the higher retail prices index. The MTFS is based on increases at only 1% per annum and every 1% pay awards exceed this by will add £220,000 to the CSB. The unions have submitted a 5% pay claim and while this is unlikely to be achieved the award for 2018/19 may exceed 1%.

DDF

61. The carry forward of £1,301,000 represents an increase of £526,000 on the £775,000 of slippage for 2015/16. The largest carry forwards are the DCLG funding for planning activities and the Garden Towns of £862,000, which were only received very late in 2016/17. The financial forecast shows that not all DDF funding is currently allocated to schemes, it indicates that approximately £564,000 of DDF will be available at 1 April 2021. Although this is reliant on a transfer in of £0.5m from the General Fund in 2018/19.

The Capital Programme

62. The generation of capital receipts in 2016/17 was higher than had been anticipated. This was largely due to more council houses being sold. The Government boosted right to buy sales by increasing the discount that tenants can receive to £75,000 and this led to sales of 53 houses in 2013/14 and 46 in 2014/15. Sales then reduced in 2015/16 to 20 but have bounced back up again to 46 in 2016/17.

63. It has already been stated above that the General Fund capital programme will continue as the main vehicle for putting the Council in a self-financing position and that in order to achieve this some borrowing will be necessary in 2017/18. The HRA capital programme had a major review in 2016/17 to take account of the changes to the house building and maintenance programmes going forward.

64. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 22 June 2017 highlighted that the variance of £6.1m was a substantial reduction on the previous year's figure of £12.6m. Non-HRA expenditure was £2.9m below the estimate at £19.6m, whilst HRA expenditure of £17.4m was £3.2m below the estimate of £20.6m. The slippage in the programme will be carried forward to subsequent periods.

An updated Medium Term Financial Strategy

65. For the reasons set out in the various sections above, the update to the MTFS has been limited to changes to reflect the outturn for 2016/17. Annexes 1 (a & b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £300,000 for 2018/19, decreasing to £250,000 for 2019/20 and then £150,000 for 2020/21. These savings would give total CSB figures for 2018/19 of £12.92m and 2019/20 of £12.67m.

66. This proposal sets net DDF expenditure at £3.25m for 2017/18 and £929,000 for 2018/19, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

67. No predicted non-housing capital receipts are being taken into account, as any disposals are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund is used up entirely. As already stated above, this will be the first time capital resources are not freely available and a change in thinking is needed to ensure any capital proposals include borrowing costs.

68. Previously the Council has taken steps to communicate the MTFS with staff, partners and other stakeholders. This process is still seen as good practice and a failure to repeat the exercise could harm relationships and obstruct informed debate. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

The Council Tax

69. Even though the Government has now changed its position on Council Tax increases and is effectively encouraging them, it has been assumed that Members will wish to adhere to the established policy of not increasing the Council Tax throughout the period of the MTFS. This is something that can easily be revisited later in the budget process if we find ourselves in a significantly worse position than is currently envisaged.

Conclusion

70. The Council remains in a strong financial position as the overspend in 2016/17 was not significant. It is comforting at this time to have substantial reserves as the general election has delivered greater political uncertainty and a higher level of financial risk.

71. Hopefully we will see a period of stability in government and there will not be another general election for several years. This would assist in clarifying policies covering, the reform of local government funding, devolution and changes to the HRA. However, these may be delayed by the work on negotiating our exit from the EU and our new trade deals with the rest of the world.

72. There is also great uncertainty over what the final settlement figures will be for all of the business rate appeals and whether pooling will continue to be a success. Other questions remain in service areas, such as the timing and size of the savings from the new leisure contract and what can be done to address the growing problem of homelessness.

73. For the moment we have to make prudent assumptions and look to see how we can best safeguard the Council's finances for the future. At this time it is difficult to meaningfully update the MTFS, so the programme of net savings is unchanged from that set out in February. This should be achievable as our financial strength allows us to look for the necessary savings over the medium term.