

## **Report to the Cabinet**

**Report reference: C-046-2017/18**  
**Date of meeting: 1 February 2018**



**Portfolio: Finance**

**Subject: Council Budgets 2018/19**

**Responsible Officer: Bob Palmer (01992 564279).**

**Democratic Services: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

(1) That the Cabinet considers the Council's 2018/19 General Fund budgets and makes recommendations to Full Council on 22 February 2018 on adopting the following:

(a) the revised revenue estimates for 2017/18, which are anticipated to increase the General Fund balance by £0.53m;

(b) a decrease in the target for the 2018/19 CSB budget from £12.92m to £11.91m (including growth items);

(c) an increase in the target for the 2018/19 DDF net spend from £0.93m to £4.21m;

(d) an increase of 2.48% in the District Council Tax for a Band 'D' property to raise the charge from £148.77 to £152.46;

(e) the estimated increase in General Fund balances in 2018/19 of £0.99m;

(f) the five year capital programme 2017/18 – 21/22;

(g) the Medium Term Financial Strategy 2017/18 – 21/22;

(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 Cabinet recommends to Full Council that the 2018/19 HRA budget including the revised revenue estimates for 2017/18 be agreed;

(3) That Full Council be requested to note that rent reductions proposed for 2018/19 will give an average overall fall of 1%;

(4) That the Cabinet notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2018/19 budgets and the adequacy of the reserves.

### **Executive Summary:**

This report sets out the detailed recommendations for the Council's budget for 2018/19. The budget adds £0.99m to reserves and the Council's policy on the level of reserves can be

maintained throughout the period of the Medium Term Financial Strategy (MTFS). However, the MTFS shows it is necessary to use reserves to support the provision of services with contributions of £387,000 in 2020/21 and £557,000 in 2021/22.

The budget is based on the assumption that Council Tax will increase by 2.48% and that average Housing Revenue Account rents will decrease by 1% in 2018/19.

### **Reasons for Proposed Decisions:**

The decisions are necessary to determine the budget that will be placed before Council on 22 February 2018.

### **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. This report was considered by the Finance and Performance Management Cabinet Committee on 18 January 2018 and the minutes and recommendations of that meeting are included elsewhere on the agenda. Cabinet are asked to consider those recommendations and in turn make recommendations to Council for the setting of the Council Tax and budget on 22 February 2018.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to the Finance and Performance Management Cabinet Committee on 20 July 2017. 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 and pay awards

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 £100,000 from the General Fund reserves. This was possible as the MTFS approved in February 2017 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 2017/18 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 uncertainties around income from business rates. This projection showed a need to achieve additional net savings of £300,000 on the 2018/19 estimates, followed by £250,000 in 2019/20 and £150,000 in 2020/21 to keep revenue balances comfortably above the target level at the end of 2020/21.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2018/19 were therefore established as:

- i. The ceiling for CSB net expenditure be no more than £12.92m including net growth/savings.
- ii. The ceiling for DDF net expenditure be no more than £0.929m.
- iii. The District Council Tax to continue to be frozen.

### The Current Position

7. The overall position on the budgets through the medium term is rather different now to what it was in July. Considerable progress has been made on Transformation and expenditure and savings have been included for the implementation of the Technology Strategy and the People Strategy. Earlier on the agenda for this meeting Cabinet will consider an expansion in community safety budgets to help address the district wide problem of anti-social behaviour. Following informal discussions with Cabinet, the budget has been prepared on the assumption that this expenditure will be required and that it will be funded by an increase of 2.48% in the Council Tax.

8. The draft General Fund budget summary is provided as Annex 1. 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

9. At the July 2016 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 announced an acceptance rate of 97%. Given the existence of the four-year settlement and the previously announced figures it was disappointing to see our Settlement Funding Assessment (SFA) reduce for both 2018/19 and 2019/20. For 2018/19 the SFA has reduced by £6,623 and for 2019/20 the reduction is £49,756, the figures in the table below reflect these reductions.

	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
Revenue Support Grant	2.45	1.53	0.74	0.26	-0.28
Retained Business Rates	3.02	3.05	3.11	3.20	3.27
<b>SFA</b>	<b>5.47</b>	<b>4.58</b>	<b>3.85</b>	<b>3.46</b>	<b>2.99</b>
Decrease £		0.89	0.73	0.39	0.47
Decrease %		16.3%	15.9%	10.1%	13.6%

10. This means the picture over this period is worse than we had expected with the SFA reducing by £2.48m or over 45%. The Local Government Information Unit briefing on the draft settlement showed that we have the sixth largest reduction in funding of all authorities. This briefing shows Essex authorities at both extremes of the changes in funding, Brentwood have an even larger reduction than us and are the worst effected authority in England whilst at the other end of the scale Chelmsford have seen the second largest increase in funding. The draft settlement states that the issue of authorities whose retained business rates exceeds their SFA being penalised with an additional tariff is still being reviewed. Although it has not been removed yet so it is still shown in the table above as negative Revenue Support Grant.

11. We have not increased the Council Tax since 2010/11 and the Finance and Performance Management Cabinet Committee was clear in July that no increase should be made for 2018/19. However, circumstances have changed and Cabinet has indicated that an increase should be made in 2018/19 to pay for three police officers and other initiatives to tackle the increase in anti-social behaviour.

12. The draft settlement increased the referendum limit for increases in the Council Tax from 2% to 3%, which is helpful as the increase to pay for the additional measures mentioned above is 2.48%. Another significant decision was the one not to impose referendum limits on parishes for a further three 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. The largest change in the Council Tax referendum principles for 2018/19 is for Police and Crime Commissioners (PCC). As a result of a successful lobbying campaign on underfunding an increase of £12 per band D property is being allowed. This is likely to see the PCC band D charge in Essex increase by 7.6% from £157 to £169. For the county as a whole this is likely to see police funding increase by more than £7m.

14. Looking to the future, the draft settlement confirms the Government's intention to have a new system of "Fair Funding" in place for 2020/21. Unfortunately there is very little information yet on what the outcomes from the new system will be, although a period of transitional funding is currently envisaged.

#### b) Business Rates Retention

15. Another disappointment in the draft settlement was that Essex was not chosen as one of the areas to pilot 100% business rates retention. The DCLG had made it clear that they wanted some pilots in two-tier areas but that they would prioritise bids that covered whole county areas and it appeared that we would be able to submit such a bid. However, Thurrock pulled out on the day the bid had to be submitted and that left Essex too far down the scoring amongst the 27 bids to be one of the 10 that succeeded. On a more positive note, the DCLG have confirmed that the current pooling arrangement will be allowed to continue.

16. Since the introduction of business rates retention this Council has done rather better than the DCLG has predicted, as illustrated in the table below.

	<b>2013/14</b> <b>£m</b>	<b>2014/15</b> <b>£m</b>	<b>2015/16</b> <b>£m</b>	<b>2016/17</b> <b>£m</b>	<b>2017/18</b> <b>£m</b>	<b>2018/19</b> <b>£m</b>	<b>2019/20</b> <b>£m</b>
DCLG	2.91	2.97	3.02	3.05	3.11	3.21	3.32
Actual/Est.	2.97	3.64	4.40	4.63	4.61	4.90	4.30
<b>Surplus</b>	<b>0.06</b>	<b>0.67</b>	<b>1.38</b>	<b>1.58</b>	<b>1.50</b>	<b>1.69</b>	<b>0.98</b>
Levy	0.03	0.34	0.24	0.37	tbc	tbc	tbc

17. 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. Current monitoring of the pool indicates that there will again be a significant benefit in 2017/18.

18. 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. 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.

19. 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 has been 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. The draft settlement did reflect this as our basic tariff for 2018/19 has reduced by £125,520 and an even larger reduction of £216,807 follows for 2019/20. However, the tariff still increases by £0.6m in 2019/20 and this is what causes the reduction in expected income from £4.9m to £4.3m.

20. 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 known only 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. To date we have been notified of very few appeals but this seems due more to difficulties being experienced by people trying to use the new system than people being happier than usual with their revised assessments. So 2017/18 and 2018/19 are particularly challenging years for estimating business rates and the figures will continue to be carefully monitored.

21. 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.

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 £4.5m.

23. The draft settlement confirmed that the DCLG had given up on their previous target for implementation of 100% business rate retention of 2019/20 and that the new system should now be in place by 2020/21. Even though the new pilots mentioned above are based on 100% retention, the DCLG have stated that the system from 2020/21 will be based on 75% retention. As no rationale has been provided for why 75% is now more appropriate than 100% this percentage may well change again before 2020/21.

24. 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. As part of the bidding process to become a pilot it was necessary to also state what the authorities involved wanted to happen if they were unsuccessful. The wider co-operation in attempting to construct an Essex wide bid has meant that authorities which are outside the pool for 2017/18 (such as Southend and Chelmsford) will now join the pool for 2018/19. This does bring a greater element of risk to the pool as previously any authority that anticipated falling into the safety net was excluded. If it becomes evident through the monitoring for 2018/19 that this Council will not benefit financially from pooling a recommendation will be made not to pool in 2019/20.

### c) Welfare Reform

25. 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. In view of these concerns, no significant change is being proposed for 2018/19.

26. In the Financial Issues Paper an update was provided on the Benefits Cap. This 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 was felt 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 indications had been that several hundred claimants in this district would be affected. In July 2017 there were 157 cap cases with the weekly loss of benefits ranging from £0.03 to £253.35. This has now reduced to 139 cases although the range of weekly losses is unchanged. The average weekly loss in July was £45.94 and this has now increased to £49.15. Where appropriate discretionary housing payments have been awarded but this has not been necessary in the vast majority of cases. Current experience suggests that when most claimants get affected by the cap they are able to find new or additional work.

27. In the Budget the Chancellor took notice of the widespread concerns about Universal Credit (UC) and introduced several measures to ease its roll out. The most significant change was the removal of the seven-day waiting period before a claim could start. This means from February 2018 entitlement to UC will start on the first day of application. Another important change is that from April 2018 those already on Housing Benefit will continue to receive their award for the first two weeks of their UC claim. Other changes include a relaxation on the rules on awarding and recovering advances and making it easier for claimants to have the housing element of their award paid direct to their landlords.

28. The roll out has also been delayed again but remains based on Job Centres. What this means for the Epping Forest district is that some post codes are already on UC but the district will not be fully covered for new claims until December. 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.

29. 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 substantial reduction of £42,000 in 2017/18, 2018/19 will see a further reduction of £29,000, which is a cut of over 6%.

#### d) New Homes Bonus

30. The reductions in New Homes Bonus (NHB) for 2017/18 were far greater than had been anticipated. The reason for this much larger reduction was the introduction of a baseline of 0.4% for 2017/18. This meant that only growth above 0.4% of the taxbase qualified for NHB, in practical terms this reduced the number of qualifying properties from 241 to 11 or in cash terms the additional NHB for 2017/18 was £16,000 instead of £320,000. Having a baseline at 0.4% eliminated most of our growth and this will severely limit our income from NHB going forward as well.

31. During 2017 DCLG consulted on further possible changes to NHB including reducing payments where planning approval has been granted on appeal. This restriction has not been introduced for 2018/19. However, this is irrelevant for this Council as our growth during 2017/18 is below the 0.4% baseline so no additional NHB has been awarded for 2018/19.

This is £50,000 worse than had been anticipated and the MTFS has been adjusted for this additional reduction, which takes the reduction in NHB income from 2016/17 to 2020/21 to £2.6m.

#### e) Development Opportunities

32. 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 caused that part of the project to be over budget and Council approved a supplementary estimate of £741,000 on 21 December 2017. Most of the large units have now been occupied and were trading before Christmas. There are three units still to be let and negotiations are continuing with potential tenants. These delays have meant the income anticipated in the MTFS has had to be re-phased to later periods.

33. Our professional advisers have stated that an annual rental income of £2.7m is achievable. The MTFS includes a prudent view, reducing this to £2.5m to allow for any shortfall, management costs and interest. A report to the Asset Management and Economic Development Cabinet Committee on 11 January 2018 stated that all stores will be open in March and an official opening will then take place.

34. The much delayed mixed use re-development of the St Johns area in Epping appears to be nearing a conclusion as it is hoped that the development agreement will be concluded this month. The former Winston Churchill pub site has also suffered delays and the income from this project in the MTFS has been reduced and re-phased to later periods.

35. Given the many years it has taken to develop the sites mentioned above it is imperative that additional substantial new projects are brought forward in the near future. In paragraph 10 above reference was made to the relatively large reduction in funding that the Council has had for 2018/19. This may be an indication of further reductions when "Fair Funding" is introduced for 2020/21. The Council has an ambition to be self-funded and not reliant on Government grants going forward. This will not be possible without some new substantial development schemes entering the pipeline in 2018/19.

#### f) Transformation

36. Good progress has been made on all three of the key projects on accommodation, people and technology. Unfortunately the accommodation work is now on hold pending a meeting with Historic England. This meeting is necessary to determine what can and what cannot be done to the buildings now within the constraints of their listing. It should still be possible to use the buildings more efficiently but the scope and cost of the works may be different to what had been envisaged.

37. Cabinet considered a report on the People Strategy and the common operating model on 7 December. A fundamental change in the organisational structure and a significant reduction in top management are planned. The estimates for 2018/19 include a budget to cover potential redundancy and early retirement costs, with consequent salary savings arising over the short to medium term.

38. The Technology Strategy covers the period from 2018 to 2023 and was considered at the November Cabinet. The many projects set out within the strategy will help provide a better service to the public and improve the efficiency of the Council's working practices. Adjustments have been made to the MTFS to include funding for the various projects.

39. If the ambitions of Members, as set out in the Transformation Programme, are to be achieved it is essential that the loss of the Chief Executive does not lead to a loss of momentum. Clearly whoever replaces the current Chief Executive will be key in driving forward transformation to deliver the benefits in terms of customer service and efficiencies.

## g) Waste and Leisure Contracts

40. 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.

41. 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. Some discussions have been held with the service provider but these have not yet produced any cost savings to recover the additional £0.5m of CSB expenditure. It is still hoped that proposals will emerge through the Waste Management Partnership Board.

42. 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.

43. The contract assumes investment in both new and existing leisure facilities and work is already underway on 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

44. In addition to the significant items mentioned above there are a couple 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. 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.

45. The Council's single largest cost is the annual pay bill of around £23m. For several years a pay cap of 1% has limited increases in pay. However, following the submission of a 5% pay claim by the unions the employer's side has offered 2% for both 2018/19 and 2019/20. The draft settlement has provided no additional funding to finance these increases. Even though there is some gap between the unions claim and the employers offer it seems most likely that the final outcome will be 2% for the two years. The MTFS has been prepared on this basis, which is higher than had previously been allowed for.

The ceiling for CSB net expenditure be no more than £12.92m including net growth

46. Annex 2 lists all the CSB changes for next year. The MTFS in July included net CSB savings of £763,000 for 2018/19 and the revised 2017/18 budget had a net CSB reduction of



£458,000. Overall with the inclusion of amounts for the transformation programme and combined savings elsewhere the CSB position for 2018/19 is some distance below that targeted in July. In July the MTFS had a CSB target for 2018/19 of £12.92m and the General Fund summary at Annex 1 shows that the CSB total is £1.01m below this at £11.91m. Therefore it is proposed to reduce the CSB target to £11.91m.

The ceiling for DDF net expenditure be no more than £0.929m

47. The DDF net movement for 2018/19 is £4.208m, Annex 3 lists all the DDF items in detail. This increase has been partly driven by the inclusion of £1.34m for the General Fund element of the redundancy and early retirement costs that will arise from the People Strategy. The second largest cost item is £0.946m for work on the Local Plan. The Local Plan is a substantial and unavoidable project and in 2017/18 and 2018/19 DDF funding of £2.173m is allocated to it. In addition to the costs of constructing the Local Plan, a further £278,000 of expenditure has been included for strategic implementation and work on planning performance agreements.

48. At £4.208m the DDF programme is substantially above the target for 2018/19. Although this is partly off-set by the reduction in 2017/18 as the predicted spend in the previous MTFS of £3.249m has been reduced by £1.248m to £2.001m. It is proposed to increase the DDF ceiling for 2018/19 from £0.929m to £4.208m to deliver the schemes Members have supported. The DDF is predicted to require transfers from the General Fund Reserve totaling £2.65m to ensure that it continues to have funds available through to the end of the period covered by the MTFS.

49. The above figures include the potential costs of additional spending on anti-social behaviour which are covered by a report earlier on the agenda. If this spending is not funded by an increase in the Council Tax it will mean an increase in the size of the transfer necessary from the General Fund Reserve to the DDF.

The District Council Tax be frozen

50. Cabinet has indicated that the Council Tax will be increased by 2.48% to pay for three police officers and other initiatives to tackle anti-social behaviour. As these activities are to be piloted for three years the MTFS assumes Council Tax will reduce in 2021/22 when the pilot ends.

That longer term guidelines covering the period to March 2022 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;*

51. Current projections show this rule will not be breached by 2021/22, by which time reserves will have reduced to £4.949m and 25% of net budget requirement will be £3.258m.

*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.*

52. The outturn for 2016/17 used £0.865m (including the use of £1m to fund capital projects) from reserves and the revised estimates for 2017/18 anticipate an increase of £0.53m. This would leave the opening revenue reserve for 2018/19 at £5.735m and with the estimates for 2018/19 showing a further increase of £0.994m, reserves at the end of 2018/19 would be £5.429m, after a transfer of £1.3m to the DDF. The Medium Term Financial

Strategy at Annex 5 shows deficit budgets in the final two years of the period. The deficit is £387,000 in 2020/21 and this increases to £557,000 in 2021/22, this is despite additional CSB savings of £300,000 in both 2020/21 and 2021/22.

### The Local Government Finance Settlement

53. 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 2018/19 General Fund Budget

54. 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 MTFs includes substantial savings from the Transformation Programme and the fact that these may not be achieved has been recognised on the Corporate Risk Register. The second biggest risk is around the 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.

55. 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.

56. 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.

57. The starting point for the budget is the attached MTFs, Annex 5. Annexes 5a and 5b are based on the current draft budget with a Council Tax increase of 2.48% from £148.77 to £152.46 (Band D), which is subsequently reversed in 2021/22.

58. 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 2018/19 of £12.92m achieved. Known changes beyond 2018/19 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 and the Winston Churchill development will be fully let in 2018 and that income will be in line with the consultant's projections.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme a transfer in of £1m from the General Fund Reserve will be required in 2017/18 followed by a further £1.65m in the next two years to ensure funds are available through to the end of 2021/22.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets at the end of the period will reduce the closing balances at the end of 2021/22 to £4.95m or 38% of NBR for 2021/22, although this can only be done with further savings in 2020/21 and subsequent years.

### The Housing Revenue Account

59. The balance on the HRA at 31 March 2019 is expected to be £2.021m, after deficits of £1.564m in 2017/18 and £0.268m in 2018/19. The estimates for both years have been

compiled on the self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

60. The process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other is no longer with us. From 2016/17 local authorities have been required to reduce rents by 1% per annum and this continues to 2019/20. During 2017/18 Members decide to proceed with phases 4 to 6 of the new house building programme and to revert to the decent homes standard for the maintenance of existing properties. These significant changes have impacted on the HRA Business Plan and it will be kept under review during 2018/19 to determine any further necessary measures.

61. Members are recommended to agree the budgets for 2018/19 and 2017/18 revised and to note that although there is a deficit in 2018/19 the HRA has adequate ongoing balances.

### The Capital Programme

62. 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.

63. 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 over £127m over five years, it is anticipated that the Council will still have £2.1m 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). In order to finance the capital programme it is currently envisaged that £28.4m of borrowing will be required.

### Risk Assessment and the Level of Balances

64. 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 2018/19. 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 22 February will consider the recommendations of the Cabinet on the budget for 2018/19 and will determine the planned level of the Council's balances. The report of the CFO follows as Annex 7.

### The Prudential Indicators and Treasury Management Strategy 2018/19

65. 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 are set out in a separate report earlier on the agenda.

66. 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.

67. The size of the Capital Programme means additional borrowing will be required during 2018/19. 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 20 July 2017

Draft Growth List – see agenda of 16 November 2017

**Risk Management:**

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.