**Subject:** **Medium Term Financial Strategy 2018/19 to 2020/21**

**Report to:** **Policy and Resources Committee 28 November 2017**

**Report by:** **Finance Director**

**SUBJECT MATTER/RECOMMENDATIONS**

This report presents an updated medium term financial strategy for the period 2018/19 to 2020/21. The strategy has been updated to support the current Plan and will be used to inform the detailed budget for 2018/19.

1.1 **Members are asked to consider and note**

**a) The updated Medium Term Financial Strategy;**

**b) The current financial forecast for the period 2018/19 to 2020/21;**

**c) The revised reserves statement as included at Appendix A to the financial strategy.**

## 1. INTRODUCTION/BACKGROUND

1.2 The attached document "Medium Term Financial Strategy 2018/19 to 2020/21" (MTFS) sets out how the external financial challenges and internal budget pressures will impact on the overall financial position of the Council for the next four years.

1.3 The Strategy provides an updated position on the Council's financial projections for the medium term, identifying the budgetary pressures on the Council during this period. It takes account of inflation, service pressures, income streams, reserves and the capital programme and starts to consider the implications of the shift to local funding in 2020 from the removal of revenue support grant.

1.4 The Strategy seeks to identify strategies for addressing these areas within the overall context of the revenue and capital budgets.

1.5 Revised funding projections have been made and are included within the MTFS. These have been informed by the previous financial years outturn position along with the in-year budget monitoring and updating for known and new savings and additional income that can be factored into the current and future financial forecasts as part of the 2018/19 budget process.

1.6 The Financial Strategy is the first of a number of pieces of work which culminate in setting the annual budget and Council Tax for the forward financial year in February 2018.

## 2. FINANCIAL AND RISK IMPLICATIONS

2.1 The detail within the strategy document has highlighted the financial challenges that continue to face the Council in terms of the forecast funding reductions and the removal of revenue support grant in 2020/21.

2.2 The strategy provides an update to the funding forecasts for the period 2018/19 to 2020/21 which will be revised over the coming months as the full detail of the budget for 2018/19 and forward projections is finalised to be considered by Members in February as part of setting the budget for the forthcoming financial year.

2.3 The Strategy outlines a number of the key themes and priorities of the business strategy that are currently ongoing that will assist in reducing the forecast budget gap.

2.4 The detailed work on the future budgets will be completed over the coming months which will provide an update to the positon as currently forecast.

2.5 The funding position makes assumptions on grant funding outside of the multi-year settlement, the most significant of which is the New Homes Bonus for which there is yet to be an announcement following the consultation that took place earlier in the year.

2.6 The outcome of the Autumn statement announcements will be used to inform the budget for 2018/19 and future financial forecasts.

2.7 Whilst the Council does hold a number of earmarked reserves along with the general reserve (currently above the recommended level), this funding only provides short term-one off funding and does not provide a means for producing a robust sustainable position in the longer term.

## 3. CONCLUSIONS

3.1 The projections are currently forecasting a deficit of just over £120,000 for 2018/19; work is ongoing on the detailed budget to present to members for approval in February 2018. The MTFS identifies the key themes and priorities for the Council in seeking to reduce the forecast budget gap.

## 4. RECOMMENDATIONS

4.1 **Members are asked to consider and note**

**a) The updated Medium Term Financial Strategy;**

**b) The current financial forecast for the period 2018/19 to 2020/21;**

**c) The revised reserves statement as included at Appendix A to the financial strategy.**

## 5. BACKGROUND PAPERS

5.1 Current year budget monitoring reports;

5.2 2016/17 outturn report.

*Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?*

| Area for consideration | Comment |
|---|---|

| | |
|---|---|
| Monitoring Officer Consultation: | |
| Section 151 Officer Consultation: | |
| Existing Council Policies: | |
| Financial Implications: | Detailed in attached strategy |
| Legal Implications (including human rights): | |
| Risk Implications: | Detailed in report and strategy |
| Equality Issues/EQIA assessment: | |
| Crime & Disorder: | |
| Every Child Matters: | |

# FINANCIAL STRATEGY 2018/19 TO 2020/21

## 1. INTRODUCTION

1.1 The production of a Medium Term Financial Strategy (MTFS) provides preparatory work for the next year's budget informing members and stakeholders of the future funding gaps and outlines the strategy for the Council to deliver a medium to long term sustainable position.

1.2 The MTFS informs the attainment of the Council's priorities by setting out the framework within which resources are available to the Council over the medium term and the financial challenges facing the Council in terms of future funding gaps.

1.3 A thorough review of the MTFS for the Council was completed in 2016 for the 2017/18 strategy, this updated strategy has now been refreshed for the known changes, since the Council continues to be within the four-year finance settlement period which commenced in 2016/17 the overall strategy largely remains the same.

1.4 The MTFS of an authority is a strategic document that supports the delivery of the Corporate Plan. Great Yarmouth Borough Council's "The Plan 2015-2020" sets out the Council's commitment to lead and drive development of six priorities for the Borough over the next five years. The six key priorities are:

- Economic Growth
- Housing
- Neighbourhoods, Communities and the Environment
- Tourism, Culture and Heritage
- Great Yarmouth's Town Centre
- Transport and Infrastructure.

1.5 The plan expands on the above key priorities, highlighting the Councils ambition, and approach to delivery.

1.6 The MTFS provides a high-level assessment of the resources available and outlines the financial projections for the medium term (to 2020/21). It provides a refresh of the financial projections taking into account a number of local and national factors which inform the assumptions upon which the projections are based. These will include known spending pressures and commitments, along with forecast of future funding reductions and the impact of the national economic outlook.

1.7 The strategy explores the expenditure plans of the Council and sets these against the impact of reduced central government funding. It also considers the capacity for levying council tax, the likely levels of grants and the part played by fees and charges in the overall revenue budget of the Council going forward.

1.8 In addition, the MTFS explores the demands on the capital programme in terms of both ambition and resources and the impact on the revenue account and on the level of reserves held by the Council of its financing.

1.9 Finally, the strategy addresses both the sustainability of the Councils financial position and examines the risks inherent in the proposals.

1.10 The MTFS includes the following:

- Background and Context – this provides an overview of the wider financial issues and assumptions that have been made in the strategy and forward financial projections;

- Resources – this provides an overview of the resources available to the Council from grants and income;
- Financial Forecast – this provides an update to the financial projections made in February 2017 taking into account forecast changes to spending and funding plans as applicable;
- Reserves – this section provides an overview of the Council's reserves both general and earmarked;
- Capital – an overview of the current capital programme and resources is included within this section of the MTFS;
- Financial Strategy – this section of the document outlines some of the work that is currently in progress or is due to commence in the short to medium term to reduce the forecast deficit;
- Risk and Sensitivity – this section outlines the more significant financial risks facing the Council along with scenarios of the impact of changes to some of the assumptions.
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## 2. BACKGROUND AND CONTEXT

2.1 The 2017/18 budget was set and approved in February 2017. At the same time, the forward financial projections and funding gaps for the following three years were reported. These were based on current service delivery spending and income plans at the time taking into account inflationary increases (where applicable) along with agreed savings plans and additional income where applicable. They also included the funding allocations as detailed within the four-year settlement as announced in February 2016.

2.2 This document now provides the latest financial forecast for the period 2018/19 to 2020/21, which has been informed by both local and national factors that have or are due to have an impact on the overall financial position for the Council, moving forward. The MTFS will inform the detailed work on the 2018/19 budget and future forecasts.

2.3 The financial projections have been updated to reflect the latest indications of funding reductions and to take account of revised spending pressures, local demand and commitments along with updated forecasts of property growth to inform the council tax income and New Homes Bonus allocations along with local income sources.

2.4 There continues to be a number of important issues facing the public sector along with the associated financial impact. This section of the report seeks to outline a number of these issues, in particular the following:

- National Outlook
- Funding
- Business Rates Retention
- New Homes Bonus
- Local Council Tax Support

2.5 **National Outlook**

2.6 UK Consumer Price Inflation (CPI) index rose with August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

2.7 The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

2.8 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. At the September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months", then in November the Committee voted 7-2 in favour of an increase to 0.50%.

2.9 Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

2.10 Following the General Election in June the Queen's speech on 21 June did not reintroduce the Local Government Finance Bill. The Bill had set out the framework for the retention of business rates and without the bill the full retention cannot be implemented. The Government remains committed to the retention of business rates however without the primary legislation full retention will not be rolled out, although the further call for pilot 100% retention areas supports this commitment.

**Funding**

2.11 The provisional finance settlement (year two of the multi-year settlement which the Council accepted) was announced by the Secretary of State for Local Government in December 2016 and later confirmed in February 2017.

2.12 Some of the key messages from the settlement statement and the subsequent analysis were as follows:

a) **Social Care Precept** – greater flexibility over the social care precept allowing a rise from 2% to 3% on the condition that the total increase does not exceed 6% by 2019/20 (this does not apply to Great Yarmouth Borough Council);

b) **New Homes Bonus** reforms are planned to deliver £241 million to be allocated to social care authorities. This would be a redistribution of existing funding as opposed 'new funding'. The reforms included a reduction to a five year allocation in 2017/18 and to a four year scheme from 2018/19. In addition a 0.4 % threshold below which no bonus would be payable has been introduced;

c) **Core Spending Power** - Overall there are reductions in core spending power in 2017/18 of 1.1%, although the actual changes compared to 2016/17 differ between tiers of local government;

d) **Multi-year settlements** – 97% of Local Authorities accepted the four year settlement (2016/17 to 2019/20) providing confirmation of Revenue Support Grant for the period;

e) **Council Tax** – The referendum principles for 2017/18 remained at 2% with the exception of the lowest Police and Crime Commissioners and all shire district authorities for which the limit would be the higher of 2% or £5 on a band D. (For GYBC this equated to a maximum increase of £5 per annum equating to 3.4%).

**Revenue Finance**

2.13 The settlement included a measure referred to as 'Core Spending Power', this is essentially the Government's measure of core revenue funding components for local government consisting of the following (*applicable sources for GYBC), the settlement assumes additional funding available through some of these sources during the term of the multi-year settlement, these are summarised below:

- Revenue Support Grant* - assumed to be phased out by 2019/20;
- Retained Business Rates* - assumed to increase in line with RPI;
- New Homes Bonus* - reductions to the scheme to be a four year allocation;
- Improved Better Care Fund Income
- Rural Services Delivery Grant
- Transition Grant - continuation in 2017/18 where applicable
- 2017/18 Adult Social Care Support Grant
- Assumed income from Council Tax – allowing for tax base growth* - based on previous growth recorded from 2013/14 to 2015/16;
- Assumed income from Council Tax – allowing for annual increases to the council tax to the referendum limits, i.e. higher of 2% or £5*.

2.14 The 2017/18 settlement reflected the continuation of the shift from centrally allocated funding system to a funding system that is more localised. The main elements of local authority funding being generated through ‘Local’ Council Tax generation ability through the flexibility to raise council tax within the referendum principles limits, ‘Local’ business rates through the scheme of retention of local business rate growth and from New Homes Bonus from additional grant allocations linked to increases in properties and bringing long term empty properties back into use.

2.15 Table 1 provides a summary of Core Spending Power for GYBC for the four year period.

| Table 1 - Core Spending Power | 2015/16 Adjusted | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| **Settlement Funding Assessment:** | | | | | |
| Revenue Support Grant | | 3,740 | 3,007 | 2,545 | 2,029 |
| Baseline Funding Level | | 3,515 | 3,584 | 3,690 | 3,808 |
| **Modified Settlement Funding Assessment (MSFA)** | 8,135 | 7,255 | 6,591 | 6,235 | 5,837 |
| **Council Tax:** | 3,831 | 3,946 | 4,084 | 4,290 | 4,449 |
| Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI) | 3,831 | 3,946 | 4,084 | 4,232 | 4,388 |
| additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level | 0 | 0 | 0 | 59 | 61 |
| New Homes Bonus and returned funding | 1,168 | 1,385 | 1,393 | 875 | 840 |
| | | | | | |
| Core Spending Power (as per announcement) | **13,134** | **12,586** | **12,068** | **11,400** | **11,126** |
| Reduction £ | | (548) | (518) | (668) | (274) |
| Reduction % | | -4.2% | -4.1% | -5.5% | -2.4% |
| | | | | | (2,009) |
| | | | | | -15.3% |

2.16 The main element of government funding is the “Settlement Funding Assessment” (SFA) and includes revenue support grants (RSG) and the baseline funding level (retained business rates). The baseline funding element is increased by RPI each year and the RSG is reduced year on year in line with the governments programme of funding reductions. Table 2 provides a breakdown of the SFA since 2015/16 when this measure of government funding was introduced.

| | | | | | |
|---|---|---|---|---|---|
| **Table 2 Settlement Funding Assessment** | | | | | |
| | **2015/16 Adjusted** | **2016-17** | **2017-18** | **2018-19** | **2019-20** |
| **Settlement Funding Assessment:** | | | | | |
| Revenue Support Grant | | 3,740 | 3,007 | 2,545 | 2,029 |
| Baseline Funding Level | | 3,515 | 3,584 | 3,690 | 3,808 |
| **Total Settlement Funding Assessment** | 8,135 | 7,255 | 6,591 | 6,235 | 5,837 |
| | | | | | |
| **Movement - Year on Year** | | | | | |
| Revenue Support Grant £ (Reduction) | | 3,740 | (733) | (462) | (516) |
| Revenue Support Grant % Reduction | | | -19.6% | -15.4% | -20.3% |
| Baseline Funding Level £ Increase | | 3,515 | 69 | 106 | 118 |
| Baseline Funding Level % Increase | | | 1.967% | 2.950% | 3.196% |
| **Total Settlement Funding Assessment (Reduction) £** | | **(880)** | **(664)** | **(356)** | **(398)** |
| **Total Settlement Funding Assessment (Reduction) %** | | -10.8% | -9.2% | -5.4% | -6.4% |
| | | | | | (2,298) |
| | | | | | -28% |

2.17 The above summary shows the four-year settlement includes RSG up until 2019/20. The current financial forecasts assume that the RSG will no longer be receivable after 2019/20. No assumption has been made of what transitional measures would be put in place post removal of RSG and the introduction of 100% rates retention and the outcomes of the Fair Funding Review.

**Business Rates Retention**

2.18 The following outlines the main elements of the current business rates retention scheme:

a) Business rates collected are split 50/50 between central and local shares. The local share is then split 80/20 districts and County, so essentially GYBC receive 40% of the business rates collected;

b) The system includes a mechanism of tariffs and top ups to reflect local spending needs, essentially districts pay a tariff and counties (i.e. NCC) receive a top-up;

c) The business rates baseline is increased annually by RPI (in line with the actual business rates payable) and the tariffs and top-ups are increased by the same measure, RPI. The baseline allocation forms part of annual budget finance settlement announcements;

d) The baseline, tariffs and top-ups are expected to continue to grow in line with RPI each year. For 2017/18 the Government recalculated top-ups and tariffs to mitigate the impact of the revaluation and to ensure as far as possible, there are no windfall gains or losses from the 2017 revaluation.

e) Local Authorities can keep up to 50% of the growth in business rate income. They will however be required to pay a levy (to central government outside any business rates pool[1]) to ensure there is not disproportionate growth within the overall system;

[1] GYBC is not currently part of the Norfolk Business Rates pool for 2017/18 but the pool will be extended to include GYBC from 2018/19 if the 100% pilot application is not successful. The Council still have the ability to bid for funds from the pool.

f) The Levy is used to fund the 'safety net' element of the system which provides protection to those authorities that see their year-on-year income fall by more than 7.5%, i.e. they are protected beyond the 7.5% reduction;

g) Business rates' pooling provides a mechanism for a business rate pool to be established which allows for the levy payment that would have been paid to the government on growth, to be retained locally and used as agreed by the authorities within the pool.

2.19 In previous years the Autumn statements have included a package of business rate relief measures to support businesses including for example, pub relief, small businesses. In addition as part of the 2017/18 budget the Chancellor announced a total funding allocation of £300 million from 2017/18 to be allocated to those businesses that were facing significant increased in their business rate charges due to the impact of the 2017 revaluation[2].

2.20 Local Authorities are reimbursed for these measures via a section 31 grant, although the grants are taken into account when determining the level of levy payable each year on business rate growth each year. The future forecasts assume that these measures continue and that Local Authorities continue to be recompensed accordingly as the current system.

2.21 Business rate information on reliefs and income received or expected is collected on the National Non Domestic Rate (NNDR) returns submitted in January (projection) and May (actual). The returns are reviewed as part of the annual audit process.

2.22 The business rates baseline funding and tariff is included in the annual finance settlement announcement and these increase by inflation each year. Table 3 below provides a summary of the local share, tariff and baseline funding level for 2016/17 to 2019/20.

| Table 3 - Business Rates Retained | | Four Year Settlement Period | | | |
|---|---|---|---|---|---|
| | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
| Retained Business Rates | 12,143 | 12,244 | 11,530 | 11,901 | 12,324 |
| Less Tariff | (8,657) | (8,729) | (7,943) | (8,199) | (8,490) |
| Baseline Funding | 3,486 | 3,515 | 3,587 | 3,702 | 3,834 |
| Movement £000 | | 29 | 72 | 115 | 132 |
| Movement % | | 0.8% | 2.0% | 3.2% | 3.6% |

2.23 The annual National Non-Domestic Rates Return (NNDR1 form) provides an estimate of what the Council will collect in business rate income for the following financial year. The variation between the estimate and the actual is then accounted for through the surplus/deficit on the (business rates) collection fund in the following year, in a similar way to the operation of the council tax collection fund account. The actual position will be influenced by fluctuations in business rate income received in the year, for example as a result of appeals and reductions in property rateable value, new business rate growth and changes in the level of eligible reliefs. Increases in business rate income compared to the baseline will be used to calculate the amount of saved levy paid into the Norfolk Business Rate Pool.

**100% Retention of Business Rates**

[2] Policy and resources approved an amendment to the discretionary rate relief policy in 2017 and these reliefs have been awarded in line with the local policy.

2.24 As mentioned earlier the primary legislation is not in place that will allow the full roll out of 100% business rate retention. There has been a further call for pilots for 100% rates retention for 2018/19 and an application has been submitted for Norfolk to take part in the pilot. Depending on the outcome of the application this could see an additional £10million of funding being retained in Norfolk. The report to the October meeting of Policy and resources outlined the application and process for 100% pilots. Once the outcome of the application is known further work will be carried out on the implementation of this for 2018/19.

**New Homes Bonus**

2.25 The New Homes Bonus (NHB) was introduced in 2011/12 to incentivise and reward councils and communities for building new homes in their areas. Under the original scheme a grant was payable for six years, with a new allocation being made annually. The grant is calculated by multiplying the national average council tax by the net additional homes growth (net of movements in long term empty properties), in addition there is an additional supplement of £350 per affordable dwelling.

2.26 The current system splits the grant between local authority tiers; 80% to the lower tier (GYBC) and 20% to the upper tier (NCC) and annual allocations of NHB Grant are announced as part of the finance settlement each year and are based on the Council Tax Base returns that are submitted annually to the Government (covering the twelve-month period October to September). The calculation of the bonus does not take into account planning permissions or any other elements of the planning processes.

2.27 For budgeting and future financial forecasting 100% of the annual NHB grant has been included in the Council's base budget and future projections funding to support local service provision and in part the loss of government funding by the scaling back of the revenue support grant.

2.28 Changes were introduced to the NHB system in 2017 which saw a reduction to a five year allocation in 2017/18 and to a four year scheme from 2018/19 and in addition a 0.4 % threshold below which no bonus would be payable was introduced.

2.29 Further changes have been proposed to link the allocation to the planning system including non payment of the bonus for properties approved on appeal and withholding of bonus linked to production of Local plan.

2.30 The funding received via the NHB grant to date is illustrated in table 4 below.

**Table 4 – New Homes Bonus – Allocations to date**

| Allocation | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 2011/12 | 274 | 274 | 274 | 274 | 274 | 274 | |
| 2012/13 | | 234 | 234 | 234 | 234 | 234 | |
| 2013/14 | | | 321 | 321 | 321 | 321 | 321 |
| 2014/15 | | | | 119 | 119 | 119 | 119 |
| 2015/16 | | | | | 208 | 208 | 208 |
| 2016/17 | | | | | | 220 | 220 |
| 2017/18 | | | | | | | 194 |
| **Total** | **274** | **508** | **829** | **949** | **1,157** | **1,377** | **1,063** |

2.31 Early indications from the submission of data that is used to calculate the NHB indicates that the net growth in properties has not reached the baseline of 0.4% assuming that this will be similar levels as that for the current financial year. A prudent approach to the future financial forecast has therefore been taking assuming that there will be no new NHB for 2018/19, although assuming that the system is still in place in

2019/20 an element of additional growth could be factored into the forecast from 2019/20. The net impact to the 2018/19 forecast is approximately £150,000 reduced funding.

**Autumn Statement**

2.32 The Autumn Statement by the Chancellor of the Exchequer will be made on 22 November 2017 and the implications of the Autumn Statement will then be quantified and included in the detailed budget for 2018/19 and used to inform the future financial projections.

**Local Council Tax Support (LCTS)**

2.33 Local Council Tax Support was introduced in April 2013 and replaced Council Tax Benefit as part of a national funding reduction programme and to encourage people to work. Billing Authorities have the discretion to set their own scheme, although at the outset the government did stipulate that the scheme would not change the support for low income pensioners, i.e. they would receive the same level of support as under the system of Council Tax Benefit and is still the case.

2.34 Funding for LCTS is within the overall Local Government Funding system as non ring-fenced funding within revenue support grant and baseline funding level. The overall level of funding for LCTS is reduced each year in line with the funding reductions to Local Authorities.

2.35 The local scheme (for Great Yarmouth Borough Council) has remained the same since the introduction of LCTS in 2013/14. The local scheme means that those that were previously entitled to 100% council tax benefit would be required to pay 8.5%.

2.36 The Policy & Resources Committee will receive an item to their November 2017 meeting and therefore any change will be reflected in the updated budget position as applicable.

2.37 The funding for LCTS includes an element in relation to parishes, this funding has been passed to the town and parish council's since the commencement of the scheme, Policy and Resources Committee in October recommend that the grant be reduced to reflect the funding reductions that the Council has been receiving. For 2018/19 the grant to be passed to the parishes will be £33,710

## 3. RESOURCES

3.1 The Council's net current revenue budget for 2017/18 (excluding Parish and Town Council Precepts) is £12.3 million and is summarised in table 7 below. Internal resources are from Council Tax and other income, these two areas are discussed in further detail below.

| Table 5 – Funding Sources | | |
|---|---|---|
| | **2016/17 Actual £000** | **2017/18 Budget £000** |
| Council Tax – Borough | 3,914 | 4,142 |
| Retained Business Rates | 3,515 | 4,095 |
| Revenue Support Grant | 3,740 | 3,007 |
| New Homes Bonus | 1,377 | 1,063 |
| **Total** | **12,546** | **12,307** |

### 3.2 Council Tax

3.2.1 Council Tax freeze funding ended in 2015/16. Prior to this the Council had accepted the annual council tax freeze grant since 2011/12, thereby maintaining the Band D Borough Council tax charge of £146.48. 2017/18 was the first year of an increase to the Council Tax for the Borough Council and for the current year is £151.48 for a Band D property.

3.2.2 As part of the annual Local Government Finance Settlement, the government make announcements on referendums relating to Council Tax increases (Principles). These require that over a threshold an authority would be required to hold a referendum in order to increase Council Tax. For 2017/18 the amount of council tax increase deemed to be excessive if it exceeded either 2% of £5 increase. As a guide a 2% increase in GYBC's council tax would generate income of approximately £80,000.

3.2.3 The Council tax base is an assessment of the number of dwellings expressed in Band D equivalents; it allows for non-collection, discounts and new property growth and influences the level of council tax income for funding in the year. For 2017/18 the tax base was set at 27,342 (26,722 in 2016/17), current projections for 2018/19 are 28,064.

3.2.4 Table 8 below shows the current forecast of Council Tax income for the period 2018/19 to 2020/21. This currently assumes tax base growth each year and increases to Council Tax in line with the funding principles as included in the Local Government Finance Settlement. Changes to Council Tax discounts for example second homes and Council tax Support will influence the Council Tax Base and therefore the level of income generated through Council Tax, no changes to discounts have been assumed in the current forecast other than those currently approved by Members.

| Table 6 - Council Tax Income | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014/15 Actual | 2015/16 Actual | 2016/17 Forecast | 2017/18 Forecast | 2018/19 Forecast | 2019/20 Forecast | 2020/21 Forecast |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Council Tax Income | 3,772 | 3,831 | 3,914 | 4,142 | 4,391 | 4,613 | 4,839 |
| Increase/(Decrease) in Yield | n/a | 59 | 83 | 228 | 249 | 222 | 226 |
| *Note the Council Tax Income equates to the tax base multiplied by the Band D equivalent. Forecasts from 2018/19 onwards assume Council Tax increases in line with the the 2016/17 local government finance settlement funding assumptions.* | | | | | | | |

## 3.3 Fees, Charges and Other Income

3.3.1 The Council has a number of limited sources of income available, for example fees and charges for services and income from investments.

3.3.2 Some of the charges for services are set by government, for example some licence fees, others are set locally to break even over a three year period and others set to fund the provision of wider Council services.

3.3.3 A number of the more significant income budgets are subject to factors which the Council has limited control over, for example some demand led services including Car Parking, Crematorium fees, Planning and Building Control fees and Waste and Recycling credits which are influenced by both the level of recycling achieved as a Borough and the market for recycled materials. These areas are highlighted within the annual budget setting report and the risk of not achieving the budgeted figures is reflected in the assessment of the level of general reserve.

3.3.4 In December 2014 the Council approved a Fees and Charges policy which recommended planned fee increases each year of RPI plus 2%. The proposed fees and charges for 2018/19 in line with the policy are being reported to Members ahead of the approval of the 2018/19 budget process to allow informed estimates to be included and also for implentation.

## 4. FINANCIAL FORECAST UPDATE

4.1 The 2017/18 budget was approved by Council in February 2017, at the same time the forward financial projections for the following three years to 2019/20 were also reported. The projections were based on the current expenditure and income plans at the time, forecasting a future deficit of £693k in 2018/19, increasing to £1.5million in 2019/20 and £3million in 2020/21. This forecast position was after allowing for projected savings and income from a number of proposals agreed as part of the 2017/18 budget which were dependent upon future changes to working and provision of services which were yet to commence and the funding allocations as detailed in the 2017/18 Local Government Finance Settlement.

4.2 The updated forecasts have been informed by revised income projections for a number of the more significant income areas, RSG and business rates retention and where further savings have been identified.

4.3 The Council continues to align its spending plans with the available resources at its disposal. Significant savings and additional income have been realised over a number of years and the continuation of these savings and income have been assumed within the MTFS.

4.4 There continues to be a number of national changes for which timescales have changed including the roll out of universal credit, the impact of Brexit, changes to New Homes Bonus allocations and the full retention of business rates. As the impact and financial implications of these and others are quantified, this will need to be taken into account and spending plans adjusted accordingly. In addition the Autumn Statement announcement from 22 November will be reflected in the detailed budget for 2018/19.

4.5 The detailed budget for 2018/19 will be produced over the coming months, this will be presented for approval in February 2018 along with the revised forecasts updated to reflect the latest funding announcements and spending pressures.

4.6 The financial forecasts have been updated for known service variances that have been highlighted to date or where revised forecasts based on the 2016/17 outturn position are necessary. The following commentary provides further information as applicable:

4.6.1 Service Income – The current year shortfall on crematorium has been reflected in the profile and further work on this budget heading is currently underway.

4.6.2 Employee Budgets – A number of posts within the establishment have been or have become vacant in the year. Where applicable, some have been replaced or opportunities taken to replace in a different way. There are still a number of vacant posts and these will be reviewed alongside the areas of focus within the financial strategy as detailed at section 7. The forecasts assume an annual pay award of 1% for the period of the strategy although following recent announcments around removing pay caps, this assumption may need to be revisited once the detil of the budget is worked upon.

4.6.3 Business Rates – The forecasts have been informed by the outturn position on the 2016/17 NNDR return and the current year monitoring position, updated in respect of appeals, growth and the collection fund deficit.

4.6.4 Council Tax/New Homes Bonus – The forecasts take account of the latest projections of tax base growth which have an impact on the council tax income forecasts along with the forecast of NHB and reduction of NHB for 2018/19.

4.6.5 Table 9 provides a summary of the revised position taking into account all the factors identified above, these are based on the current position and before any of the detailed budget work for 2018/19 has been completed.

| Table 7 - Updated Financial Forecast | 2018/19<br>£'000 | 2019/20<br>£'000 | 2019/20<br>£'000 |
|---|---|---|---|
| Forecast Gap (as reported February 2017) | 693 | 1,508 | 3,083 |
| Service Spending Pressures Update: | 0 | 0 | 0 |
| Service Updates: | 47 | 47 | 47 |
| Non Service Updates: | (200) | (200) | (200) |
| Revised Funding Forecasts: | | | |
| Council Tax | (42) | (65) | (88) |
| NHB | 150 | 100 | 100 |
| **Revised Forecast Budget Gap** | 648 | 1,390 | 2,942 |

4.7 Initial savings proposals have been considered by ELT and Policy and Resources as part of the preparatory work on the 2018/19, the total of these proposals (if approved) total £80,000 in 2018/19 increasing to £120,000 in 2020/21. This will reduced the forecast funding gap to £568,000 in 2018/19 and to £2.8illion in 2019/20.

4.8 Detailed work has already commenced on identifying options to reduce the future funding deficits some of these areas are discussed in section 8 along with targets which will help to reduce the future funding gap.

## 5. HOUSING REVENUE ACCOUNT

### 5.1 HRA – Overview

5.1.1 Since the introduction of self-financing in 2012, the 30 year HRA business plan has continued to be challenged by a number of changes. Right to buy discounts have increased, rent setting policy has changed and other future new proposals affecting the HRA have been announced such as 'Disposal of higher value properties' in order to fund the Right to Buy of Housing Association properties.

5.1.2 In response to these changes, the strategy for the Council has in the short term been to kept the HRA reserves levels high in order to mitigate this loss of revenue. Annual budget setting processes has seen the service review all revenue spending to look at where savings can be made. The Capital programme, which is funded in large part by contributions from revenue, has also been reviewed and certain areas of work have been reduced or slowed down. Careful consideration has been made not to reduce capital spend where this would have an overly detrimental impact on revenue costs.

5.1.3 The affordable housing plans have been reviewed and the amount of money in the capital programme for new affordable housing is limited to the amount of money that needs to be spent in order to use available RTB receipts. Consideration will be given to selling empty properties where this makes best use of the stock and is the most economic option.

5.1.4 Service charges have been proposed to rise in line with the council's policy in order the close the gap between cost and income.

5.1.5 As part of the Asset management strategy, a refreshed stock condition survey has been completed in the current financial year, which has allowed the council to gather updated information about the stock held. This will allow more accurate forecasting of future costs and enable better planning of maintenance and improvement programmes. Initial impacts of the stock condition survey will be reflected within the 2018/19 HRA Draft Capital Budget and reviewed in future budgets. This will include re-profiling of the current capital budget where applicable.

### 5.2 Rent setting policy changes - 1% Reduction over 4 years

5.2.1 The Welfare Reform and Work Act 2016 introduced a 1% reduction per year for four years to social housing rents starting in April 2016. This replaced the Government's rent policy, which commenced in April 2015 to limit rent increases to CPI + 1%. This in itself replaced the previous policy which aimed to bring parity between social housing rents in the Council and Housing Association sector and had set a target rent for each property. The financial impact of this change was a reduction in income of £9.8m up until 2024/25, when considered in conjunction with the Council's decision in February 2014 to agree a rent increase below the recommended formula.

5.2.2 The government has said that 1% reduction will 'reset the levels of rents in the social housing sector', which over the recent years have become out of kilter with private rents.

5.2.3 The impact of the rent decrease is to further reduce the amount of money available to manage, maintain and improve the housing stock. The modelled reduction in resources amounts to a further reduction of £9.6m over four years and £142m over the course of the 30-year business plan.

### 5.3 Disposal of 'higher value' properties

5.3.1 To meet the costs of providing discounts, a determination may be made requiring a local authority in England with an HRA to make a payment to the Government for a financial year reflecting the market value of high value housing likely to become vacant during the year, less costs, whether or not receipts are realised. Regulations will determine 'higher value' as applicable to different areas. The detail of how this will work in practice is still to be finalised and the regulations have not been published. Recently the Government has announced a delay to the full implementation of RTB for Housing Association tenants and to these regulations. Without the full detail, it is not possible to model the financial impact. However, the Government has recently said that it acknowledges that Councils will need a considerable lead in period in which to prepare.

5.3.2 It is understood, however, that when enacted, the local authority must consider selling its interest (Freehold or leasehold) in high value housing but it is assumed that it could fund the payment by other means. It is likely that stock retaining authorities will have the option to retain some receipts to facilitate provision of replacement homes. The details of this part of the scheme are not known and may for part of a revised scheme on the use of Right to Buy funds.

5.3.3 All the payments will be based on assumptions about receipts from voids sales; it may be the case that actual receipts fall short of the payments due. In this case local authorities will need to fund the payments from other sources or face interest charges on late payments.

5.3.4 As a result of this policy, the Council will lose rental streams from any high value properties that are sold, along with any marginal costs of managing and maintaining those units. It would be equitable for authorities to receive some form of compensation for the loss of net rent income.

## 5.4 Capital Financing Costs

5.4.1 As a result of the introduction of self-financing, the Council paid the Government £58.4m on behalf of the HRA. The implications of interest payable on borrowing and debt repayments are built into the HRA budget.

5.4.2 The existing debt attributable to both the HRA and GF has been split (nominally) into two separate pools. The self-financing settlement debt was aggregated within the new HRA debt pool from 1 April 2012.

**5.4.3** The financing costs charged to the HRA will continue to be monitored and reviewed, to ensure that the implications of treasury management decisions are recognised corporately and reflected in budgeting and forecasting.

## 5.5 Right to Buy Discounts and Retained Receipts

5.5.1 Right to buy discounts have increased since the introduction of Self Financing, the maximum discount increases each year based on the consumer price index (CPI). The business model has been amended to incorporate this change.

5.5.2 The HRA is still part of a retention agreement, where the HRA can retain receipts, to support up to 30% of the cost of replacement homes if incurred in a 3 year period. If retained receipts are not used, the Council is liable to repayment of the receipt plus interest, so it is important to monitor and project RTB sales and RTB receipts in order to plan for their appropriate use. The HRA continues to look at options for new affordable housing which covers the spend of the RTB retained receipts.

5.5.3 In addition to the funding of new build properties, it is proposed to increase the availability of affordable housing with a combination of grant contributions to Housing Association developments; purchasing appropriate empty homes on the open market; and purchasing of a limited number of suitable properties on the open market.

## 5.6 Future Plans

5.6.1 There are two key strands to the Councils HRA investment plans:

a) Maintaining and improving the housing stock;

b) New Affordable council housing, including new housing to replace sales under RTB in line with Government guidance.

5.7 The next stage of the HRA review will be the preparation of the revised HRA 30 year business plan incorporating the HRA long term spending plans driven by the 17/18 stock condition survey and the resourcing of those plans including the impact of RTB sales and social rent policy. The stock condition is due to be reported to the Housing and Neighbourhoods Committee.

## 6. RESERVES

6.1 As part of the annual budget and council tax setting process the Chief Financial Officer must report on the adequacy of the reserves that the Authority holds. The Policy Framework informs this for Reserves which is reviewed and updated alongside approving the budget each year[3].

6.2 The Council holds a number of useable reserves both for revenue and capital purposes which fall within one of the following categories, each are discussed in the following sections:

- General Reserve
- Earmarked Reserves (General Fund and Housing Revenue Account)
- Capital Receipts Reserve
- Housing Revenue Account Reserve.

6.3 The General Reserve is held for two main purposes:

- to provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing
- a contingency to help cushion the impact of unexpected events or emergencies

6.4 As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared including the following factors:

- sensitivity to pay and price inflation;
- sensitivity to fluctuations in interest rates;
- the level of savings that have been factored into the budget and the risk they will not be delivered as anticipated, both level and timing;
- potential legal claims where earmarked funds have not been allocated;
- emergencies and other unknowns;
- impact of demand led pressures which impact on both income and expenditure;
- future funding fluctuations;
- level of earmarked reserves held;
- a level of general reserve that is within 5% to 10% of net expenditure.

6.5 A financial assessment will be made of all the factors to arrive at a recommended level for the general reserve. The current recommended balance is £2 million.

6.6 The general reserve balance at 1 April 2017 was £3.7 million, after allowing for planned movements, the balance by 31 March 2018 is expected to be £3.3 million.

6.7 **Earmarked Reserves** provide a means of building up funds to meet known or predicted liabilities and are typically used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructurings. Whilst earmarked in nature until the amounts are budgeted to be taken from the reserves, commitments have not yet been made from these reserves. Earmarked reserves can also be held for service projects and business units which have been established from surpluses to cover potential losses in future years, or to finance capital expenditure. Earmarked reserves also provide a mechanism to carry forward underspends at the year-end for use in the following financial year where no budget exists.

6.8 For each earmarked reserve a number of principles should be established:

- the reasons for, or the purpose of the reserve

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- how and when the reserve can be used – short to long term
- procedures for the reserve's management and control.

6.9 The establishment and use of earmarked reserves is reviewed at the time of budget setting, throughout the year as part of the budget monitoring processes and also as part of the year-end reporting. Review of earmarked reserves throughout the year takes into account the continuing relevance and adequacy of the reserve and also the level of the general reserve.

6.10 An updated reserves statement is included at Appendix A. This reflects the latest position for the use of all reserves in the current and future financial years where known. There is still some uncertainty around the exact timing of the use of a number of the reserves, for which some are held as a contingency to mitigate a potential liability although the timing and likelihood of this is depended upon future events.

6.11 The following provides a commentary on some of the more significant reserves that the Council currently holds and maintains:

- Invest to Save – this earmarked reserve was established in a previous financial year to be used to fund one-off/upfront costs for projects that will deliver on-going savings. Examples include, officer restructurings where one-off redundancy or pension strain costs might be payable but the business case delivers an on-going revenue saving within two to five years, or for investment in IT hardware, software or equipment or one-off costs which will deliver savings through more efficient ways of working for example the programme of digital transformation projects. The forecast balance at 31 March 2018 is £1.7 million.
- Town Centre Indicative – Earmarked funding for regenerating and developing the Great Yarmouth town centre through a variety of projects. As at 31 March 2017 the balance on this reserve was £0.495 million and after allowing for approved use in the current financial year is forecast to be £0.266 million at 31 March 2018.
- Collection Fund National Non-domestic Rates reserve – This was established following the introduction of business rates retention. The reserve had a balance of £1.9 million as at 31 March 2017. Use of this reserve will be to offset return of monies to the Government or as a result of appeals and for the smoothing of fluctuations in business rates income between financial years.

6.12 All reserves general and earmarked will be reviewed over the coming months as part of setting the detailed budgets for 2017/18, with a view that where commitments have not been identified, and funds or reserve balances are no longer required, these are re-allocated to specific reserves to address the other requirements as applicable

6.13 The Council also holds a Capital Receipts Reserve, this includes the balance of receipts generated from asset disposals. Capital receipts are generated when an asset is disposed of and can only be used to fund expenditure of a capital nature, i.e. not for on-going revenue expenditure. The balance of capital receipts is used to fund the current approved capital programme.

6.14 Details of the current capital programme that are being financed from capital receipts is included in section 6 and which highlights the reducing available balance within this reserve over the next three years.

6.15 The use of reserves provides only a short-term measure to reduce the funding gap and whilst it can be used to mitigate the impact in the short-term, to allow time for the implementation of financial strategy options or in response to in-year changes does not provide a sustainable solution in the medium to long term.

## 7. CAPITAL

7.1 The capital programme is updated regularly throughout the year as part of the budget monitoring report process. A copy of the current capital programme is included as an appendix to the 2017/18 period 6 budget monitoring report within the November 2017 Policy and Resources Agenda and has therefore not been reproduced within this document.

### 7.2 General Fund Capital Programme

7.3 The following tables provide a summary of the current revised capital programme for 2017/18 (adjusted for changes due to project slippage in 2017/18), together with current forecasts for 2018/19, along with a breakdown of the relevant scheme financing.

**Table 8 Summary of the Current Revised Capital Programmes**

| 2017/18<br>Directorate | Revised Expenditure 2017-18 £000 | Financing - Forecast £000<br>Borrowing | Grants & Contributions | Capital Receipts |
|---|---|---|---|---|
| Head of Community Development & Regeneration | 5,554 | 5,211 | 343 | - |
| Head of Customer Services | 210 | 179 | 14 | 17 |
| Head of Environmental Services * | 165 | 50 | 115 | - |
| Head of Housing | 1,290 | 200 | 1,040 | 50 |
| Head of IT, Communications & Marketing | 286 | 286 | - | - |
| Head of Property & Asset Management * | 9,202 | 5,155 | 4,047 | - |
| **Total** | **16,707** | **11,082** | **5,558** | **67** |

*includes transfer of footway lighting & public toilet projects to Head of Property & Asset Management from Head of Environmental Services Directorate.

| 2018/19<br>Directorate | Revised Expenditure 2018-19 £000 | Financing - Forecast £000<br>Borrowing | Grants & Contributions | Capital Receipts |
|---|---|---|---|---|
| Head of Community Development & Regeneration | 13,562 | 11,109 | 2,454 | - |
| Head of Customer Services | 170 | 170 | - | - |
| Head of Environmental Services | - | - | - | - |
| Head of Housing | 1,785 | 1,102 | 683 | - |
| Head of IT, Communications & Marketing | 291 | 291 | - | - |
| Head of Property & Asset Management | 6,406 | 6,406 | - | - |
| **Total** | **22,214** | **19,078** | **3,136** | **-** |

7.4 The current capital programme is funded from the following sources of finance:

- Capital Receipts – generated from asset disposals (both new and existing within the capital receipts reserve);
- Grants and contributions received from external sources including third parties and government;
- Revenue – by means of making a revenue contribution to capital;
- Prudential Borrowing – by means of loans made to the council by PWLB and other sources;
- Internal Borrowing – by using of the council's cash balances as opposed to borrowing externally.

7.5 Prudential borrowing to fund capital expenditure can only be undertaken when an authority can demonstrate the need to borrow. The need to undertake prudential borrowing is demonstrated through its Capital Financing Requirement, which is driven by the balance sheet of the authority and takes into account reserves (including general and earmarked). Financing costs of the borrowing would be a charge to the revenue account and therefore any decision to undertake external borrowing would need to take account of the debt costs including interest and the Minimum Revenue Provision (MRP).

7.6 As an example, if a £5m capital project were approved there would be a revenue impact from an MRP charge to the revenue account will be made in line with the current MRP Policy – probably over the useful life of the asset – which would amount to £200,000 per annum (assuming a 25 year life).

7.7 If a decision were to be taken to use revenue reserves to finance the expenditure, no MRP charge would be necessary, as the expenditure would be financed immediately by a revenue contribution to capital.

7.8 **Housing Revenue Account Capital Programme**

7.9 The following provides a summary of the current capital programme for the HRA along with the financing.

**Table 9 Summary Housing Revenue Account Capital Programme**

| | Budget Expenditure £000 | Financing - £000 | | |
|---|---|---|---|---|
| | | Borrowing | Revenue | Capital Receipts |
| 2017/18 | 10,560 | 2,052 | 7,425 | 1,083 |
| 2018/19 | 8,307 | 1,360 | 6,539 | 408 |

## 8. FINANCIAL AND BUSINESS STRATEGY AND KEY THEMES

8.1 The preceding sections set out the revised financial forecast for the period 2018/19 to 2020/21 and some of the context within which the forthcoming budget setting will be set.

8.2 The Council's strategy therefore continues to maximise income through growth in homes and businesses, taking advantage of new funding streams including those that offer financial incentives, which at the same time deliver further efficiencies by transforming the way in which the Council currently schedule its business and provide services, taking advantage of technological changes.

8.3 The following outlines in more detail the key themes of the financial and business strategy to work towards reducing the forecast budget gap, along with indicative financial targets for each of the priorities as applicable. Each of the themes should not be seen in isolation and where applicable supporting other themes in the overall delivery:

8.3.1 **Strategic Asset Management** – To review all of the Council's asset holdings to ensure that income streams are being maximised and costs minimised. The current focus of the work is to identify development opportunities, new investment or assets which are under performing for potential disposal, with a view to adding value to strategic assets. The key aim is to identify the most efficient way to utilise the Council's assets and maximise the return that the Council receives from them.

8.3.2 **Economic Growth** – To enhance and protect the funding from business rates there needs to be opportunities to encourage new growth in the Borough, including the enterprise zones and other areas. This will also support new housing growth.

8.3.3 **Housing Growth** – Maximising the income from the New Homes Bonus and collection of Council Tax, will continue to be a main funding source for services. For each additional property built and each empty property brought back into use the Council will receive an adjustment to its council tax base as well as receiving additional New Homes Bonus. If the Council were able to accelerate housing growth and bring more empty properties back into use through a concerted effort on a corporate approach to enforcement then this will generate much greater income than is currently included within the forecast.

Following the establishment of a wholly owned housing company, the Council is well placed to maximise housing growth but should also consider other delivery mechanism as it develops a housing strategy to deliver across all tenures.

Maximising the Council tax base continues to be method to increase collection of council tax, this can be through reductions in discounts and proactive work to ensure that all eligible council tax properties are identified. During the year the Council took part in a mobile homes review to identify any properties that are sole or main residence. Whilst the outcomes did not deliver the numbers of properties originally anticipated this has had a positive impact on the tax base for 2018/19.

8.3.4 **Property Investment and Commercialisation –** To identify oopportunities for investment in properties whether direct or indirect should be considered to achieve either an income stream or improved returns on investment. These could support for example town centre regeneration to deliver growth, and linkages to the economic growth theme as detailed above. Any direct investment would be subject to a business case and the full revenue implications including borrowing costs would need to be taken into account. Currently these opportunities are idenfied as part of the current asset management plan.

8.3.5 **Technological Investment** – Enhancement and development of IT including the website to aid flexible working and access to services, linking to the digital by design work that is ongoing. The Council is currently looking at provision of IT services by LGSS, for which the initial work has commenced. It is anticipated that this will review the current operation and opportunities for enhancement and development to deliver efficiencies.

8.3.6 **Shared Services, Selling Services and Partnership** - Creating efficiencies through shared services continues to be a priority for central government. Identifying such opportunities must therefore continue at a local level, ensuring that realistic and deliverable benefits are achieved. In addition a strengthened approach to working with communities and partners in the voluntary sector to;

- Drive better outcomes for local residents;
- Reduce avoidable demand on council services;
- Secure investment to drive new partnerships with partners and communities to deliver corporate ambitions;
- Make better use of council assets and resources to offer greater social value to local communities, to develop a partnership approach with public sector partners to working with communities across the borough.
- Identifying opportunities to work alongside other public sector partners and organisations to deliver services

**8.3.7** **GYBC Operating Model –** There are various strands to considering what the right operating model is for the Council and this includes the Organisational Development work which is ongoing. This is an opportunity to continue to review service delivery and the strategic capacity of the organisation, to ensure that the right people with the right skills are taking decisions in the right place, whilst at the same time empowering staff and Members to challenge and drive forward transformation initiatives, being clear on the benefits they will bring and being accountable for their delivery. Whilst the management restructure that was carried out earlier in the year is largely complete some areas of review are still needed to ensure the efficient delivery of services**.** Specific work strands which will continue to drive efficiency and savings and support other themes as detailed above, include the following:

a) **Digital by Design** - To provide an on-line service for residents, businesses and visitors that is supported by a seamless transfer of data in the back office. For staff to have the ability to work remotely using a range of devices which again automate processes and support joined-up working, and mobile solutions.

b) **Procurement and Contract Management** - To consider the current contracts that are in place and the arrangements for managing these contracts, whether this is through a joint venture or formal contract management. The GYBS contract review is now underway which aims to develop clear specifications for service delivery under the arrangement, developing pro-active budget management of the service and ensure value for money is being achieved.

c) **Enforcement Strategy –** The enforcement board continue to provide a co-ordinated approach to issues such tackling homes and properties which blight areas and may contribute to anti-social behaviour. This will include a programme of work to bring empty homes back into use and to deliver new housing developments to grow the Council's tax base.

8.3.8 At this stage of the financial planning process it is prudent to start to allocate indicative financial targets against some of the above themes where agreed plans and projects have commenced, or are planned. These have been informed by joint work between officers and members as part of the preparatory work on the budget process for 2018/19. As the projects for the above are progressed the associated savings/additional income will be quantified and factored into the budget and future financial projections and will be brought forward to members for approval as part of the setting of the 2018/19 budget.

- Growth – Economic and Housing £50,000 – to maximise new homes, council tax and business rate growth where achievable;
- Property Investment and Commercialisation £100,000 – including direct and indirect investment;
- Technological Investment £100,000 - including efficiencies to be delivered through ICT provision;
- GYBC Operating Model £200,000 – including the review of contracts eg GYBS

8.4 **Use of Reserves – Invest to Save**

8.4.1 Use of reserves to balance a budget provides only a short-term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer term financial benefit through reduced costs or additional income.

8.4.2 Similarly, reserves can be used to fund one-off costs for projects that will deliver a longer-term benefit, for example the invest to save reserve. The use of the reserves in this way will be considered as part of the full business case for individual project proposals, taking into account the payback period of the project along with indirect financial implications.

8.5 **Updated Financial Forecast**

8.5.1 The following table summarises the updated financial position allowing for the indicative financial targets identified at 8.3.8.

**Table 10 - Updated Financial Forecast**

| | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Forecast Budget Gap (Section 4, Table 9) | 648 | 1,390 | 2,942 |
| Savings and Income Proposals | (76) | (107) | (119) |
| Financial Theme Targets | (450) | (650) | (800) |
| **Grand Total** | **122** | **632** | **2,023** |
| | | | |

8.5.2 Based on the latest financial projections and assuming delivery of the financial targets against each of the themes, there is still anticipated to be a shortfall in 2018/19 of just over £120k, increasing to just under £1 million by 2020/21. This is before any use of reserves in the short term to allow for the implementation of other work streams as identified above. This assumes delivery of the financial savings and additional income at the levels included in the indicative targets and the continued achievement of current income and growth forecasts along with the government funding forecasts. Once further detail of the Autumn Statement and financial settlement for 2018/19 are announced the forecast will be updated as applicable.

8.5.3 This position is prior to the detailed work on the budget for 2018/19 being completed which is currently in progress to be presented to Members in February. Work is continuing with services to identify further options to reduce the forecast gap in the short to medium term.

## 9. SENSITIVITY ANALYSIS AND RISKS

9.1 The Council works within the constraints of central government funding allocations and its control over council tax increases through the capping and referendum principles. The continuing downward pressure on external resources will, over time, constrain the level of service delivery that the Council is able to provide. The process of the annual budget and financial planning aims ensures that the Council is prepared and able to respond to these pressures at an early stage. That said there are continuing significant pressures on the Councils budget both general fund and housing revenue account and therefore decisions must be made which take account of the overall financial position of the authority.

9.2 There is a legal requirement to set a balanced budget annually, for which the process ensures that care is taken in preparing figures in an informed manner and proposing changes to service levels which may require upfront investment, alongside approval of the budget the level of reserves and robustness of the estimates are factors that are considered.

9.3 The forecast projections as detailed earlier in the document are dependent upon a number of key assumptions at a point in time which are not directly within the control of the Council, the most significant of these are detailed below along with the sensitivities to the financial projections, a summary table is also shown below.

9.4 **Employee Costs –** As mentioned above the forecasts assume an annual pay award of 1%, the Council is part of a national pay agreement and as a guide for GYBC, 1% equates to approximately £90,000 annually. In recent months, there have been changes to public sector increases for other parts of the sector and whether this is extended to Local Government is not yet known. Should the annual pay award agreement be different to the 1% assumed say for example by 0.5%, this would equate to an additional cost of £45,000 per annum and would need to be considered in the detail of the budget setting report. The base budgets allow for a turnover element from staffing costs, which equate to approximately 1.5% per annum.

9.5 **Business Rates Growth** – Within the Local Government Finance Settlement the Business Rates Baseline funding is assumed to increase annually in line with inflation. Actual increases (or reductions) will result in additional or a reduced level of income retained locally. Some allowance for growth after allowing for appeals has been factored into the projections, as a guide a 1% movement each year would result in approximately £50,000 additional per annum being retained locally above the level included in the forecasts. Depending on the outcome of the pilot application to retain 100% of the business rates for 2018/19, if this is supported there will be further collaborative working with all of the Norfolk authorities to ensure that system is implemented and the benefits realised in line with the objectives of rates retention.

9.6 **New Homes Growth/Increase in Tax Base** – The current budget and projections allow for NHB allocation and increases in the tax base which in turn generate increases in the locally collected element of the council tax. There are risks associated with this funding source at a local and national level. Risks at a local level are the continued delivery of housing growth and also reductions in the number of long term empty properties. Recent figures have shown an increase in the number of LTEs which reduces the allocations of NHB, and equally with the introduction of the growth baseline in the NHB determinations in 2017/18 this further reduces the funding available from NHB moving forward as is anticipated for any allocation in 2018/19. The growth in new homes can be informed by the housing trajectory figures, however the fluctuations in the number of long term empty properties can negatively (should the number increase) impact on the allocation of NHB. This area therefore that continues to be monitored closely with proactive work with homeowners and landlords to bring the properties back into use.

9.7 **Revenue Support Grant** – The overall reduction in RSG between financial years covered by the settlement period is just over £1.7m. The financial planning process has taken account of this change and the assumptions should the 100% business rates pilot for Norfolk have allowed for this level of funding still to be available, however the future funding gaps still remain a risk and the impact of the fair funding review and timing of this should this fail to address the needs of GYBC. In addition until the outcomes of the fair funding review are know the

9.8 The extent to which the above factors will have an impact on the overall projections and forecast funding gap will vary. Some will have an ongoing impact, for example an increase to the tax base in 2018/19 will have an ongoing benefit in terms of additional Council tax income generated year on year, converse to this an increase in the employee inflation in one year will increase the base budget requirement moving forward cumulatively. Equally the assumptions around future council tax increases and changes to these will also have an impact to the overall position.

9.9 Fluctuations in the demand for services, say for example a fall in car parking income due to inclement weather over a holiday period would be relatively short term, assuming no changes to other factors, for example the closure of a pay and display car park and the overall reduction in provision. For the short-term fluctuations these are mitigated through allowing elements within the general reserve.

9.10 The Council continues to face a number of risks in terms of future funding and delivery of services. A number of these risks have been referred to within the main body of the Financial Strategy. The detail of the 2018/19 budget will be completed over the coming months in preparation of the Budget and Council Tax setting report which will be presented for approval in February 2018. The work on the detailed budgets will be based on the latest local and national information and will be informed by the provisional and later final budget settlement announcements.

9.11 The main risks that the authority continue to face are outlined below:

9.11.1 **Future Funding and Business Rates** – Local Authority funding from central government continues to be under pressure with the continued shift from central government grant (from revenue support grant) to locally generated resources including retained business rates. The emphasis on retaining funds from business rates locally provides further risks to Local Authorities in that there are a number of inherent risks which will continue to be borne locally including, the status of properties changing, for example schools changing to academies and also business premises becoming empty. In addition, the impact of business rates appeals will continue to have an impact on the level of retained business rates and whilst the scheme does provide incentive for promoting and delivering growth in local economies, the impact of appeals and business decline can have a negative impact.

9.11.2 The impact of appeals will have an impact in year from reimbursement of refunds and also the future income received. The full impact will be dependent upon the outcome of the appeal by the Valuation Office Agency (VOA). The financial impact to the Council is mitigated through the appeals provision and the collection fund earmarked reserve.

9.11.3 Further measures for example extension of reliefs announced within the Autumn Statement, continue to present a risk to Local Authorities, albeit some of this risk is mitigated by the section 31 grant. Growth and/or decline in businesses will continue to have a direct impact on the funding at a local level. Some of this risk is mitigated by the earmarked reserve which is maintained to reduce the impact of appeals and to smooth the fluctuations in income being retained year-on-year.

9.11.4 **Savings –** The Council is continuing to deliver a programme of savings and additional income. Delivery of the savings at the levels budgeted is vital to delivery of the overall budget and achieving a sustainable future financial position. The delivery of these savings is closely monitored by ELT and Members as part of the ongoing budget monitoring process.

9.11.5 **Service Demand and Income** - Income from a number of demand led services remains a financial risk that cannot be fully influenced by the Council. Whilst annual estimates are pulled together under a robust methodology taking into account current performance, previous actuals and knowledge of current and future service delivery, income levels need to be closely monitored, for example for planning, car park income and fees and charges from crematorium services. Fluctuations in income can be mitigated by the use of reserves and this is a factor that is taken into account as part of the budget setting process when determining the recommended level of general reserve.

9.11.6 **Interest and MRP** - The revenue budget takes account of the planned borrowing and financing of the current and future capital programmes. Slippage of capital schemes will impact on the level of borrowing required along with the associated financing costs. In addition as new schemes and projects are approved this will have an impact on the associated financing costs and will need to be considered as part of the options appraisal and business case.

9.11.7 **New Homes Bonus –** The current budget and projections assume use of the NHB allocation within the base budget. The allocation for 2017/18 was confirmed and is therefore certain, the future forecasts have been based on the four year finance settlement announcement with some adjustments to scale back funding in 2018/19 due to actual increases in property numbers being less than anticipated. There are risks associated with this funding source at a local and national level. Risks at a local level are the continued delivery of housing growth and also reductions in the number of long term empty properties. The growth in new homes can be informed by the housing trajectory figures, however the fluctuations in the number of long term empty properties can negatively (should the number increase) impact on the allocation of NHB. This area therefore continues to be monitored closely with proactive work with homeowners and landlords to bring the properties back into use. The national risk around the future of the NHB is dependent upon the outcome of the NHB consultation and funding allocations in the future.

9.11.8 **Autumn Statement -** The government will publish its Autumn Statement on 22 November 2017 and will inform the budget from 2018/19 onwards.

9.11.9 **HRA –** Various national changes to the HRA operation and delivery for example, Pay to Stay and Higher Value cannot yet be quantified due to further information being required. Furthermore the implications of the stock condition survey will need to be considered as part of the ongoing business planning for the HRA.

## Glossary of Acronyms – Financial Strategy

| | |
|---|---|
| DWP | Department for Work and Pensions |
| LCTS | Local Council Tax Support |
| LTE | Long Term Empty |
| MRP | Minimum Revenue Provision |
| NHB | New Homes Bonus |
| RSG | Revenue Support Grant |
| SFA | Settlement Funding Assessment |
| VOA | Valuation Office Agency |

| General Fund Reserves Schedule - 2016/17 OUTTURN | Summary and Purpose of Reserve | Openning Balance 01/04/16 £ | Outturn Movement 2016/17 £ | Closing Balance 31/03/17 £ | Budgeted Movement 2017/18 £ | Actual Movement (inc forecast) 2017/18 £ | Budgeted Closing Balance 31/03/18 £ | Updated Closing Balance 31/03/18 £ | Budgeted Movement 2018/19 £ | Closing Balance 31/03/19 £ | Budgeted Movement 2019/20 £ | Closing Balance 31/03/20 £ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Planning Delivery Grant** | The reserve is planned to be used to provide service improvements in Planning, and deliver the Local Development Framework. | 62,360 | 0 | 62,360 | 0 | 0 | 62,360 | 62,360 | 0 | 62,360 | 0 | 62,360 |
| **Insurance Fund** | The Council budgets for a level of excess being charged to the Service Accounts annually. Any under provision is met from the Insurance Fund, and any surplus is transferred to the fund. | 131,769 | 78,307 | 210,076 | 0 | (5,940) | 210,076 | 204,136 | 0 | 210,076 | 0 | 210,076 |
| **Town Centre Initiative** | Earmarked for spend in relation to the town centre project. | 594,262 | (99,317) | 494,945 | (25,000) | (237,235) | 469,945 | 265,710 | 0 | 469,945 | 0 | 469,945 |
| **SHARP Funding** | The Council will utilise this funding for capital expenditure incurred in the Wellesley Rd, Sandown Rd, Euston Rd & Paget Rd areas. | 493,039 | 0 | 493,039 | 0 | 0 | 493,039 | 493,039 | 0 | 493,039 | 0 | 493,039 |
| **Restricted use grant** | These Reserves are utilised as expenditure is incurred. No provision has been made to add to these reserves in future years. | 906,756 | 42,749 | 949,505 | 0 | (293,870) | 949,505 | 655,635 | 0 | 949,505 | 0 | 949,505 |
| **Efficiency Support grant** | Balance of funding from the ESG released for project spend as approved within the budget. | 241,135 | (241,135) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Invest to Save** | To be used to fund one-off costs associated with projects that will deliver future efficiencies and savings including costs associated with restructures. (updated for P&R decisions 7.02.17) | 1,000,000 | 828,329 | 1,828,329 | (172,308) | (89,842) | 1,656,021 | 1,738,487 | (39,495) | 1,616,526 | 0 | 1,616,526 |
| **Specific budget** | These Reserves are utilised as expenditure is incurred. No provision has been made to add to these Reserves in future years. | 63,241 | 40,000 | 103,241 | 0 | (673) | 103,241 | 102,568 | 0 | 103,241 | 0 | 103,241 |
| **LEGI** | As costs are incurred, these are offset by the Reserve. | 523,671 | 0 | 523,671 | (57,000) | 0 | 466,671 | 523,671 | 0 | 466,671 | 0 | 466,671 |
| **Repairs and Maintenance** | These Reserves are utilised as expenditure is incurred. No provision has been made to add to these Reserves in future years. | 343,827 | (41,476) | 302,351 | 0 | 0 | 302,351 | 302,351 | 0 | 302,351 | 0 | 302,351 |
| **Second Homes Council Tax** | These Reserves are utilised as expenditure is incurred. No provision has been made to add to these Reserves in future years. | 97,039 | 58,923 | 155,962 | 0 | 0 | 155,962 | 155,962 | 0 | 155,962 | 0 | 155,962 |

| General Fund Reserves Schedule - 2016/17 OUTTURN | Summary and Purpose of Reserve | Openning Balance 01/04/16 £ | Outturn Movement 2016/17 £ | Closing Balance 31/03/17 £ | Budgeted Movement 2017/18 £ | Actual Movement (inc forecast) 2017/18 £ | Budgeted Closing Balance 31/03/18 £ | Updated Closing Balance 31/03/18 £ | Budgeted Movement 2018/19 £ | Closing Balance 31/03/19 £ | Budgeted Movement 2019/20 £ | Closing Balance 31/03/20 £ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Waste Management** | These Reserves are utilised as expenditure is incurred. No provision has been made to add to these Reserves in future years. | 135,170 | (110,000) | 25,170 | (25,170) | 0 | (0) | 25,170 | 0 | (0) | 0 | (0) |
| **Collection Fund (Business Rates)** | Earmarked to mitigate the fluctuations in business rate income between years. | 1,197,010 | 762,844 | 1,959,854 | 0 | 0 | 1,959,854 | 1,959,854 | 0 | 1,959,854 | 0 | 1,959,854 |
| **Neighbourhoods** | Earmarked from previous grants for neighbourhood projects. | 128,876 | 523,894 | 652,770 | 0 | 0 | 652,770 | 652,770 | 0 | 652,770 | 0 | 652,770 |
| **Enforcement** | Earmarked for enforcement related works to address issues and bring properties back into use. | 0 | 50,000 | 50,000 | 0 | 0 | 50,000 | 50,000 | 0 | 50,000 | 0 | 50,000 |
| **Special Project Reserve** | Earmarked as per the 2017/18 budget report for project spend and also for matched funding as appropriate. | 0 | 1,000,000 | 1,000,000 | (105,250) | (142,500) | 894,750 | 857,500 | (25,503) | 869,248 | (25,758) | 843,490 |
| **Benefits/Revenues Reserve** | Earmarking of grants and underspends to be used for the service and mitigation of subsidy impacts. | 0 | 155,000 | 155,000 | 0 | 0 | 155,000 | 155,000 | 0 | 155,000 | 0 | 155,000 |
| **Other Reserves** | These Reserves are utilised as expenditure is incurred. | 205,676 | 58,022 | 263,698 | (4,000) | (175,852) | 259,698 | 87,846 | (4,000) | 255,698 | 0 | 255,698 |
| **Total GF Earmarked Reserves** | | **6,123,831** | **3,106,139** | **9,229,970** | **(388,728)** | **(948,322)** | **8,841,242** | **8,289,647** | **(68,998)** | **8,772,244** | **(25,758)** | **8,746,487** |
| **General Fund Reserve** | Current recommended balance of £2.5 million | **6,350,408** | **(2,642,777)** | **3,707,631** | **(188,240)** | **(221,240)** | **3,519,391** | 3,707,631 | **0** | **3,519,391** | **0** | **3,519,391** |
| **Total GF Reserves** | | **12,474,239** | **463,362** | **12,937,601** | **(576,968)** | **(1,169,562)** | **12,360,633** | **11,997,278** | **(68,998)** | **12,291,635** | **(25,758)** | **12,265,878** |

Note: 2017/18 transfers allows for the use of £188,240 from the general reserve.