Subject: **Medium Term Financial Strategy 2019/20 to 2021/22**

Report to: **Policy and Resources Committee 27 November 2018**

Report by: **Finance Director**

SUBJECT MATTER/RECOMMENDATIONS
This report presents an updated medium term financial strategy for the period 2019/20 to 2021/22. The strategy has been updated to support the current Plan and will be used to inform the detailed budget for 2019/20. **Members are asked to consider and note** **a) The updated Medium Term Financial Strategy;** **b) The current financial forecast for the period 2019/20 to 2021/22;** **c) The revised reserves statement as included at Appendix C to the financial strategy.**

1. INTRODUCTION/BACKGROUND

1.1 The attached document "Medium Term Financial Strategy 2019/20 to 2021/22" (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.

1.2 The Strategy provides an updated position on the Council's financial projections for the medium term, highlighting 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 and implementation of 75% business rates.

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

1.4 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 2019/20 budget process.

1.5 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 2019.

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 from 2020/21.

2.2 The strategy provides an update to the funding forecasts from 2019/20 which will be revised over the coming months as the full detail of the budget for 2019/20 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 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 £100,000 for 2019/20; work is ongoing on the detailed budget to present to members for approval in February 2019. 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 2019/20 to 2021/22;

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 2017/18 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:	

1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out the Council's budget strategy for the medium term and is refreshed annually in response to changing pressures and opportunities. The strategy provides important preparatory work for the forthcoming budget setting informing members and stakeholders alike of the future funding gaps and outlines the Councils strategy to deliver a medium to long term sustainable position.

1.2 The MTFS support the delivery 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 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 Environment
- Tourism, Culture and Heritage
- Great Yarmouth's Town Centre
- Transport and Infrastructure.

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

1.5 The MTFS provides a high-level assessment of available resources and outlines the medium term financial projections. 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, including known spending pressures and commitments, forecast of future funding reductions and the economic outlook.

1.6 The MTFS outlines the demands on the capital programme in terms of both ambition and resources and the impact on the revenue account (for both housing and non-housing) and on the level of reserves held by the Council.

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

1.8 The MTFS includes the following:

- Background and Context – providing an overview of the wider financial issues and current assumptions made in the strategy and financial projections;
- Resources – an overview of financial resources available to the Council;
- Financial Forecast – detailing the latest financial projections taking into account forecast changes to spending and funding plans as applicable;
- Reserves – this section provides an overview of reserves held by the Council;
- Capital – an overview of the current capital programme and resources;
- Financial and Business Strategy – outlines priorities that are currently in progress or 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.

2. BACKGROUND AND CONTEXT

2.1 The Council approved the 2018/19 budget in February 2018. At the same time, the forward financial projections and funding gaps for the following two years were reported. These were based on then current service delivery spending and income plans taking into account inflationary increases where applicable along with agreed planned savings and additional targets. They also included the funding allocations as detailed within the four-year settlement as announced in February 2016.

2.2 The financial projections have since been updated being informed by both local and national factors that have or are expected to have an impact on the overall financial position for the Council, moving forward. The MTFS will inform the detailed work on the 2019/20 budget and future forecasts.

2.3 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 - Overview
- Business Rates Retention
- Fair Funding Review
- New Homes Bonus

2.4 **National Outlook**

2.5 UK Consumer Price Inflation (CPI) fell back to 2.4% in September, having risen in August. Higher import and energy prices have continued to hold inflation above the 2% target, but these pressures are projected to fade. Domestic inflationary pressures are expected to build over the forecast period to 2021 and the balance of these effects means that inflation is expected to be above the target for most of the forecast period, reaching 2% by the end.

2.6 The labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However, real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

2.7 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1, which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year on year GDP growth at 1.2% also remains below trend.

2.8 The Bank of England made no change to monetary policy at its meetings in May and June, however this was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. The November Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. The MPC reiterated that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

Funding

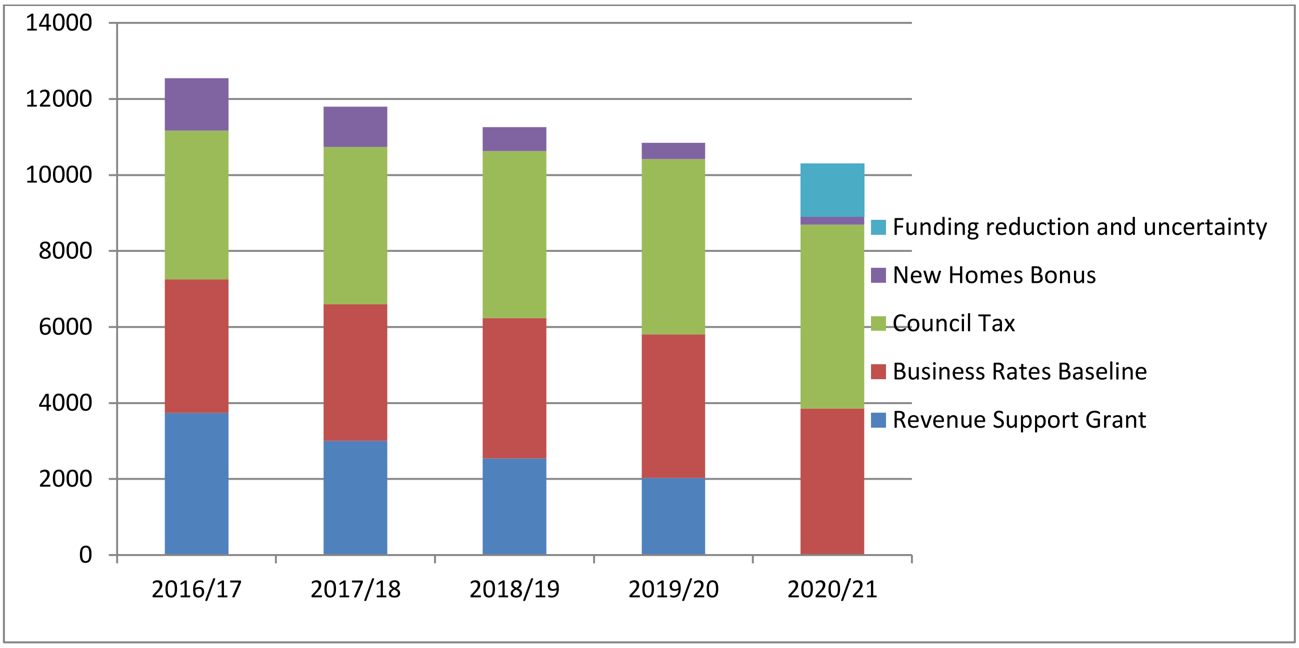
2.9 The Local Government Finance Settlement (LGFS) sets out the annual determination of funding to local government. In February 2018 the Ministry of Housing, Communities and Local Government set out the 2018/19 settlement for Local Authorities in England. This set out year three of the multi-year settlement[1], which the Council accepted in December 2016.

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

- **New Homes Bonus** – The 0.4% threshold for growth was still used in the allocation of NHB for 2018/19, i.e. there was no increase in the threshold as was previously intimated. The baseline was introduced in 2017/18 at the same time as other reforms to the NHB system including the reduction to a four year scheme from 2018/19.
- **Core Spending Power** - The figures announced indicated that Core Spending Power will rise by an average of 1.5% in 2018/19, although the actual changes compared to 2017/18 differ between tiers of local government. Appendix A includes a breakdown of the core spending power for GYBC as announced in the 2018/19 Local Government Finance Settlement.
- **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.
- **Business Rate Pilots** – A further 10 pilots for 2018/19 were announced for piloting 100% rates retention in 2018/19, the Norfolk pilot application was not one of those approved.
- **Council Tax** – The referendum principles for 2018/19 were increased to 3% (previously 2%) or £5 whichever was the higher on a band D. (For GYBC this equated to a maximum increase of £5 per annum equating to 3.3%). In addition Local Authorities with responsibility for Social Care were able to levy a precept to spend on adult social care. The precept could equate to up to 6% over 3 years, from 2017/18 to 2019/20, with a maximum increase of 3% in the first 2 years and 2% in the final year.

2.11 Each of the funding elements are discussed in more detail in section 3, as an overview Chart 1 below illustrates the net funding (after fees and charges) over the period of the multi-year finance settlement. This highlights the potential funding reduction and uncertainty around this from 2020/21 onwards.

[1] Four year settlement announced in 2016 covered the four financial years 2016/17 to 2019/20, included revenue support grant allocations, business rates top-up or tariff and rural services delivery grant.



Funding Changes and Review

2.12 Nationally there are a number of key reviews and projects that are ongoing that will significantly influence the funding of local government from 2020 onwards, namely the Fair Funding Review, introduction of 75% business rates retention and spending review 2019. The timing of the outcomes of these will not be until after the 2019/20 budget is set and therefore at this time only indicative estimates can be made around funding for local government from 2020/21 onwards. These will almost certainly change once further announcements are made and will require further revision and review as outcomes are announced during 2020/21.

2.13 The following provides an overview of each of:

2.14 **Fair Funding Review** – The review will inform the future funding of Local Government from 2020/21. The review is the most significant review of allocation of resources for a number of years. It will set new baseline funding allocations for all local authorities from 2020/21. The review is largely taking into account three main strands:

- Relative Need – to inform the assessment of need, including cost drivers;
- Relative Resources – this will include how income from council tax will be taken into account and whether other income sources are taken into account;
- Transitional Arrangements – it is expected that there will be some transition to the new system of funding to mitigate significant changes in funding for local authorities, the timeframe for the transitional arrangements is not known, although these will be removed overtime.

2.15 The culmination of the above will arrive at the baseline need to determine the funding from 2020/21.

2.16 **Retention of Business Rates** – New baselines will be set for the new system from 2020/21 and will be informed by the fair funding review. This will see the move to 75% of business rates retained by local government It was previously envisaged that from 2020 there would be a move to 100% business rates retention. Primary legislation is not in place that will allow the full roll out of 100% business rate retention; however, the government aims to increase the amount of rates retained by local government from 50% to 75% by April 2020. The new system will see the rolling in of funding streams into the new formula, including RSG Rural Services Delivery Grant and Public Health Grant. Further details on the implications for Local Authority funding is not expected until later in 2019

2.17 **Spending Review –** The spending review in 2019 will set out the allocations of funding for government departments and will inform funding from 2020/21.

2.18 In terms of timescales, there will be further consultations during 2019/20 ahead of the implementation of the fair funding review and 75% business rates retention from 2020/21. The timing of the announcements will therefore have a significant impact on the funding for Local Government from 2020/21, therefore the future financial forecasts will be subject to revision as announcements are made.

3. RESOURCES

3.1 This section outlines the main sources of funding that the Council receives both externally and from fees and charges.

3.2 Business Rates Retention

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

- Business rates collected are split 50/50 between central and local government. The local share is then split 80/20 districts and County, so essentially GYBC receive 40% of the business rates collected within the Borough;
- The system includes a mechanism of tariffs and top ups to reflect local spending needs, and resources allocated from business rates, essentially districts pay a tariff and counties (i.e. NCC) receive a top-up;
- 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;
- The baseline, tariffs and top-ups are expected to continue to grow in line with RPI each year.
- 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[2]) to ensure there is not disproportionate growth within the overall system;
- The system includes a '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;
- Business rates' pooling provides a mechanism for the growth from business rates, to be retained locally and used as agreed by the authorities within the pool. The Council has joined the Norfolk business rates pool from 2018/19.

3.2.2 Previously the government have implemented a number of business rate relief measures to support businesses including for example, pub relief, small businesses. The financial implications of these in terms of reduced business rates collected will normally be reimbursed via a section 31 grant. The future forecasts assume that these measures continue and that Local Authorities continue to be recompensed accordingly as the current system.

3.2.3 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 and inform the actual business rates retained. The business rates baseline funding and tariff is included in the annual finance settlement announcement and these increase by inflation each year. Table 1 below provides a summary of the local share, tariff and baseline funding level for 2016/17 to 2019/20.

[2] GYBC joined the Norfolk pool from 2018/19. Prior to joining the pool, the Council still have the ability to bid for funds from the pool.

Table 1 - 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	11,751	11,712
Less Tarriff	(8,657)	(8,729)	(7,943)	(8,057)	(7,935)
Baseline Funding	3,486	3,515	3,587	3,694	3,776
Movement £000		29	72	108	82
Movement %		0.8%	2.0%	3.0%	2.2%

3.2.4 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 and business closures. 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.

New Homes Bonus

3.2.5 The New Homes Bonus (NHB) was introduced in 2011/12 to incentivise and reward councils and communities for building new homes in their areas. The original scheme paid a grant 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.

3.2.6 The system splits the grant between local authority tiers; 80% to the lower tier (GYBC) and 20% to the upper tier (NCC) with annual allocations of NHB Grant being announced as part of the finance settlement based on annual returns[3].

3.2.7 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.

3.2.8 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.

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

[3] Council Tax Base Returns submitted to government annual covering twelve months October to September. The calculation of the bonus does not take into account planning permissions or any other elements of the planning processes.

Table 2 – New Homes Bonus – Allocations to date								
Allocation	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£'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	208
2016/17						220	220	220
2017/18							194	194
2018/19								
Total	**274**	**508**	**829**	**949**	**1,157**	**1,377**	**1,063**	**623**

3.2.10 The return has been submitted which will inform the 2019/20 allocations and this has confirmed that the baseline of 0.4% has not been met and therefore no additional NHB grant will be received for 2019/20. The current estimated amount of grant receivable for 2019/20 is £426k, beyond 2019/20 future allocations will be informed by the spending review.

3.3 Council Tax

3.3.1 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. 2018/19 is the second year of an increase to the Council Tax for the Borough Council and for the current year is £156.48 for a Band D property.

3.3.2 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 2018/19 the amount of council tax increase deemed to be excessive if it exceeded either 3% of £5 increase. As a guide a 3% increase in GYBC’s council tax would generate income of approximately £132,000.

3.3.3 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 2018/19 the tax base was set at 28,064 (27,342 in 2017/18), current projections for 2019/20 are 28,560, an increase of 496 band D properties.

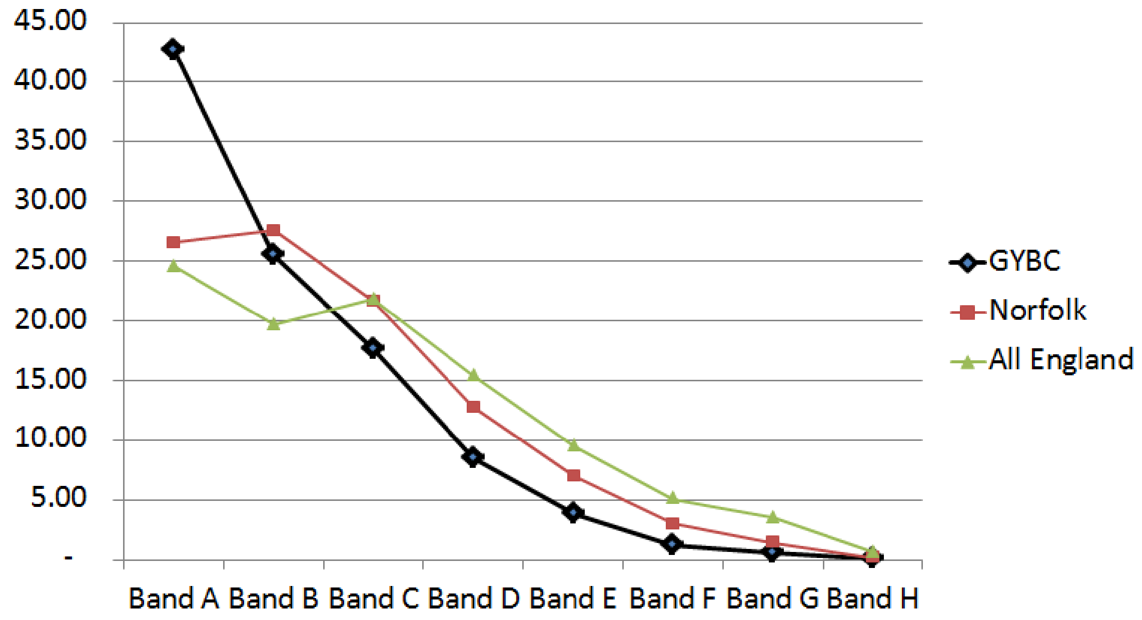
3.3.4 Table 3 below shows the current forecast of Council Tax income for the period 2018/19 to 2021/22. This currently assumes tax base growth each year and increases to Council Tax in line with the funding principles as included in the Local Government Finance Settlement. Changes to Council Tax discounts 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 3 – Council Tax Income				
	2018/19 Budget £000	2019/20 Forecast £000	2020/21 Forecast £000	2021/22 Forecast £000
Council Tax Income	4,391	4,612	4,838	5,069
Increase/(Decrease) in Yield	249	221	226	231

Note the Council Tax Income equates to the tax base multiplied by the Band D equivalent.

Forecasts from 2019/20 onwards assume Council Tax increase in line with the 2017/18 local government finance settlement funding assumptions, ie £5 band D per annum.

3.3.5 The following chart gives a profile of the current number of properties in each of the council tax band within the borough compared to the rest of Norfolk and all English authorities; this illustrates the high proportion in the lower bands. Appendix B and C illustrates the profile of all lower tier local authorities band D Council tax for 2018/19 including and excluding parish precepts.



3.4 Local Council Tax Support (LCTS)

3.4.1 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.

3.4.2 Funding for LCTS is within the overall Local Government Funding system as non-ring-fenced funding, within the 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.

3.4.3 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%.

3.4.4 The Policy and Resources Committee will receive an item to their November 2018 meeting and therefore any change will be reflected in the updated budget position as applicable, no changes are currently planned.

3.4.5 The funding for LCTS includes an element in relation to parishes; this funding has been passed to parish councils since the commencement of the scheme and has been reduced year on year to reflect the reductions in funding that the Council has received. For 2019/20, the grant to be passed to the parishes will be £30,080.

3.5 Empty Homes Premium

3.5.1 Earlier this year the Mistry of Housing, Communities and Local Government announced further measures to help councils tackle empty homes through the proposal of powers to charge higher premiums on empty homes. Currently premiums of 50% (of council tax) can be charged on properties that have been empty for two years or more, from April 2019 this can be increased to a 100% premium. Further increases to the premium can be applied from 2020 as follows:

Table 4

Financial Year	Length of Time Property is empty for	Premium Value (of Council Tax)	Example Band D Property (2018/19 Council Tax)
2019/20	Greater than two years	100%	1,721.82
2020/21	Greater than two years and less than five years	100%	1,721.82
	Greater than five years	200%	3,443.64
2021/22	Greater than two years and less than five years	100%	1,721.82
	Greater than five years but less than 10 years	200%	3,443.64
	Greater than 10 years	300%	5,165.46

3.6 The Council’s net current revenue budget for 2018/19 (excluding Parish and Town Council Precepts) is £11.7 million and is summarised in table 5 below. Projections for the following two financial years have been added which show the removal of the RSG and assume increases of business rates in line with CPI. For 2020/21 onwards, these projections are only estimates at this stage as there have been no announcements or confirmation of what the transition from RSG will look like and how the current funding process to the new funding process will take place.

Table 5 – Funding Sources				
	2018/19 Budget £000	**2019/20 Forecast £000**	**2020/21 Forecast £000**	**2021/22 Forecast £000**
Council Tax – Borough	4,391	4,612	4,838	5,069
Retained Business Rates	4,146	4,250	4,356	4,465
Revenue Support Grant	2,545	2,029	0	0
New Homes Bonus	628	426	211	17
Total	**11,710**	**11,316**	**9,405**	**9,551**

3.7 Fees, Charges and Other Income

3.7.1 The Council has a number of sources of income available from service fees, charges and property rentals and lease.

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

3.7.3 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.

3.7.4 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 2019/20 are being recommended to Members in November (to Policy and Reources) for approval by Full Council in December.

4. FINANCIAL FORECAST UPDATE

4.1 The Council approved the 2018/19 budget in February 2018, at the same time the forward financial projections for the following two years to 2020/21 were reported. The projections were based on the current expenditure and income plans at the time, forecasting a future deficit of £373k in 2019/20, increasing to £2.6 million in 2020/21. This forecast position was after allowing for projected savings and income from a number of proposals agreed as part of the 2018/19 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 2018/19 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 The detailed budget for 2019/20 will be produced over the coming months; this will be presented for approval in February 2019 along with the revised forecasts updated to reflect the latest funding announcements and spending pressures.

4.5 The financial forecasts have been updated for known service variances that have been highlighted to date or where revised forecasts based on the 2017/18 outturn position are necessary. The following commentary provides further information as applicable:

4.5.1 <u>Service Income</u> – The current year shortfall on crematorium has been reflected in the profile and further work on this budget heading is currently underway, for example car parking and planning income are both below budget as reported within the in-year budget monitoring reports. .

4.5.2 <u>Employee Budgets</u> – 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. In addition following on from the management restructure last year a number of service restructurings have been completed. The primary aim of these restructuring have been to ensure that the structure reflects the demands of the service and to ensure the capacity exists to deliver the Corporate Plan. Where savings have been delivered these have formed part of the savings exercise for the 2019/20 budget. The forecasts assume an annual pay award of 2% for the period of the strategy, this is reviewed annually.

4.5.3 <u>Business Rates</u> – The forecasts have been informed by the outturn position on the 2017/18 NNDR return and the current year monitoring position, updated in respect of appeals, growth and the collection fund deficit.

4.5.4 <u>Council Tax/New Homes Bonus</u> – The forecasts take account of the latest projections of tax base growth and discount changes, including those being presented for approval in December 2018[4]. The future financial forecast previously assumed annual tax base growth of 500 band D equivalents. The forecasts have been revised for a lower level of NHB as the Council did not meet the baseline growth of 0.4% for 2019/20 allocations.

4.5.5 Table 6 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 2019/20 has been completed.

[4] Tax base and discounts for 2019/20 to be reported to Policy and Resources Committee in November 2018 for approval by Council in December 2018.

Table 6 – Updated Financial Forecast			
	2019/20 £000	**2020/21 £000**	**2021/22 £000**
Forecast Gap (as previously reported February 2018)	373	2,586	3,260
Service Spending Pressures update:	511	411	411
Non Services Updates	(175)	(175)	(175)
Funding	150	(350)	(350)
Revised Forecast Budget Gap	**859**	**2,472**	**3,146**

4.6 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 and are in the process of being consulted on. The proposed policy of the 'Disposal of higher value voids', which would have funded Right to Buy Housing Association properties, has been abolished.

5.1.2 In response to these changes, the strategy for the Council is to keep the HRA reserves levels high in order to mitigate any loss of revenue. The Council still needs to prepare for further reductions in resources available to manage, maintain, improve and add to its housing stock and managing the implications from the stock condition survey.

5.1.3 Community Housing continues to review of all of its revenue spending to look at where savings can be made. The Capital programme, which is funded partly by contributions from revenue, is monitored regularly during the year and is reviewed in detail to update the 2018/19 budget.

5.1.4 The Capital programme now also reflects the outcomes of the stock condition survey and programmes of work, which have significantly increased due to additional works needed. Careful consideration has been taken to the ensure delivery of these works are completed over a five-year period, to manage any financial impact.

5.1.5 Additional borrowing currently maintains the affordable housing programme to comply with the right to buy agreement. The requirement is to use retained receipts within 3 years of a dwelling sale, to support up to 30% of the scheme cost of replacement homes. A consultation from Central Government with Local Authorities is currently being completed to consider introducing flexible options in the future to help spend Retained receipts. This consultation closed on Oct 9th 2018.

5.1.6 The majority of Fees and charges relating the Housing Revenue Account have been increased in line with the corporate formula adopted by the Council, RPI + 2%, to close the gap in terms of recovery of costs.

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.

5.2.2 2018/19 and 2019/20 will be the last two years of the rent reduction. Following this, the Government have proposed a CPI + 1% increase from 2020/21 onwards.

5.2.3 The continued impact of the rent decrease has reduced 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 Capital Financing Costs

5.3.1 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.

5.3.2 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.

5.3.3 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.

5.4 **Right to Buy Discounts and Retained Receipts**

5.4.1 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.

5.4.2 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.

5.4.3 Great Yarmouth Borough Council have set out a plan and ambition to use retained receipts to develop affordable council housing and to further increase the supply of affordable housing using a combination of three options:

- Grant contribution to Housing Association development
- Purchasing empty homes on the open market
- Purchase of a limited number of suitable properties on the open market.

5.5 **HRA Debt Cap Summary**

5.5.1 In the Autumn Budget for 2017 the chancellor announced that an additional £1bn of borrowing would be available to local authorises in areas of high affordability pressure. Great Yarmouth was not eligible for this additional funding and therefore was bound by its borrowing cap limitations.

5.5.2 At the Autumn conference 2018, it was announced that in order to help solve the ‘housing crisis’, the Government would scrap the borrowing cap limitations on how much councils can borrow against their HRA Assets. The budget stated that the HRA debt cap would be removed with immediate effect and the new determination came into force on 30th October 2018.

5.5.3 Authorities are now able to borrow above their original debt cap, to meet their spending requirements and take advantage of interest rates while they remain low. This could help authorities with the spending of the accrued 1-4-1 receipts, which may have otherwise been repaid to government along with the relevant interest.

5.5.4 Overall, the aim is to increase the levels of new housing within the existing housing stock, and to increase net rent income received. Work is currently underway in terms of modelling the implications to the housing business plan; increased borrowing for the HRA will need to be able to demonstrate affordability and informed decisions taken to understand the longer term impact to the HRA funding. Members will be updated as part of the 2019/20 budget process.

5.6 Future Plans

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

- Maintaining and improving the housing stock;
- New Affordable council housing, including new housing to replace sales under RTB in line with Government guidance.

5.6.2 Our plans are prepared over the medium term and are reviewed and updated annually. Future investment decisions will be based on local decision making and local knowledge of the condition of the stock and the components.

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, this is informed by the Policy Framework for Reserves which is reviewed and updated alongside approving the budget each year[5].

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 cash flows 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 is made of all the factors to arrive at a recommended level for the general reserve, which is currently £2 million.

6.6 The general reserve balance at 1 April 2018 was £4.6 million, after allowing for planned movements, the balance by 31 March 2019 is expected to be £3.9 million.

6.7 **Earmarked Reserves** provide a means of building up funds to meet known or predicted liabilities and are 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 dependent 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 to fund one-off/upfront costs for projects that will deliver on-going savings. Examples include, officer restructures, where one-off redundancy or pension strain costs might be payable where a business case delivers an on-going revenue saving within two to five years, or for an 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 2019 is £1.27 million.
- Collection Fund National Non-domestic Rates reserve – This was established following the introduction of business rates retention. This reserve had a balance of £2.5 million as at 31 March 2018. Use of this reserve will be used to offset return of monies to the Government, offset results of appeals and to smooth any 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 2019/20, with a view that where commitments have not been identified and funds or reserve balances are no longer required, these will be re-allocated to specific reserves to address the other requirements as applicable. Examples of these are the earmarked reserve previously termed "Legi" for which there are no outstanding commitments or planned use and the second homes council tax. It is recommended that these two unallocated balances be transferred to the Restructuring and Invest to Save Earmarked reserves.

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 capital receipts to be used to finance the current capital programme are included in section 6 and highlight 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, this 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 2018/19 period 6 budget monitoring report within the November 2018 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 2018/19 (adjusted for 2017/18 project budget carry forwards), together with current forecasts for 2019/20, and a breakdown of the relevant scheme financing.

Table 7 Summary of the General Fund Capital Programmes

2018/19 Directorate	Forecast Expenditure £'000	Borrowing £'000	Grants & Contributions £'000	Reveue/ Earmarked Reserves £'000	Capital Receipts £'000
Neighbourhood Management	171	171	-	-	
Customer Services	268	268	-	-	-
Inward Investment	1,923	324	1,599	-	-
Housing	1,266	0	1,130	100	36
IT, Communications & Marketing	292	292	-	-	-
Property & Asset Management	6,289	5,584	705	-	-
Total	**10,209**	**6,639**	**3,434**	**100**	**36**

2019/20 Directorate	Forecast Expenditure £'000	Borrowing £'000	Grants & Contributions £'000	Reveue/ Earmarked Reserves £'000	Capital Receipts £'000
Neighbourhood Management	40	40	-	-	-
Customer Services	0	-	-	-	-
Inward Investment	5,916	5,680	236	-	-
Housing	1,019	719	-	300	-
IT, Communications & Marketing	241	241	-	-	-
Property & Asset Management	6,191	5,261	931	-	-
Total	**13,407**	**11,941**	**1,166**	**300**	**-**

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 are charged 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 is approved the 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 is to be taken to use revenue reserves or capital receipts 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 2018/19 and 2019/20 capital programmes for the HRA along with the financing of these programmes.

Table 8 Summary of the Housing Revenue Account Capital Programme

	Budget Expenditure £'000	Financing - £'000		
		Borrowing	Revenue	Capital Receipts
2018/19	11,556	2,185	8,239	1,132
2019/20	10,429	2,139	6,902	1,388

8. FINANCIAL AND BUSINESS STRATEGY AND KEY THEMES

8.1 The preceding sections set out the updated financial forecast for the period 2019/20 to 2021/22 and some of the context within which the forthcoming budget setting will be set. The future years beyond the current financial settlement period (i.e. up to 2019/20) are based on a number of assumptions of the outcome of the fair funding review and future financial settlement all which will be subject to updates once announcements are made.

8.2 The Council's strategy must therefore continue to maximise income through growth in homes and businesses and the associated return that these will deliver through council tax and business rates, along as the wider benefits of growth. It must continue to take advantage of new funding streams, including one-off funding where there is a direct benefit to the Borough, recognising ensuring that these are both achievable in terms of the outcome and also resources needed to support the external funding. For example though internal matched funding. At the same time as ensuring that the Council can maximise the benefit of growth to the delivery of services, it should also continue to ensure that it is operating in the most efficient way.

8.3 The following outlines in more detail the key themes of the financial and business strategy that are required 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 continued focus of the work is to identify development opportunities, new investment or recognise 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. Delivery of this theme is informed by the Asset Management Strategy.

8.3.2 Economic and Housing Growth – To maximise income from housing and business rates through enabling growth and retaining existing baselines.

With a greater reliance on income from business rates locally from 2020/21 it is important to enhance and protect 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 which will deliver one of the main sources of funding for services from the collection of Council Tax. With the removal of the HRA debt cap and the establishment of a wholly owned housing company, the Council is well placed to maximise housing growth but should also consider other delivery mechanisms as part of the housing strategy, to deliver across all tenures.

The Council has for the second year not met the 0.4% threshold for growth and therefore not been able to benefit from additional New Homes Bonus for 2019/20. Optimising the Council tax base continues to be the means by which Council Tax income can be maximised. This could be through growth in property numbers, increased collection and reductions in discounts and through proactive work to ensure that all eligible council tax properties are identified.

8.3.3 Property Investment and Commercialisation – To identify opportunities for investment in properties to achieve either an income stream or improved returns on investment.

Opportunities could be indirect through treasury management property investments or direct delivery by the Council or through an appropriate vehicle. These could support, for example, regeneration within the Borough to deliver growth and linkages to the economic growth theme as detailed above. Any direct investment would be subject to a business case, taking into account all risks and the full revenue implications (including borrowing costs). Currently these opportunities are identified as part of the current asset management plan or proposals taken forward by the appropriate decision making process.

8.3.4 Technological Investment – Enhancement and development of IT to ensure efficient and effective delivery of services.

This could include development of the website and the systems used to improve access to services, flexible working and digital by design. Work on developing a digital strategy is about to commence and will be presented to Members in the new year, alongside the approval of the budget. Where applicable investment will be needed and this will be supported ***by a business case.***

8.3.5 Partnerships and Shared Services - Creating efficiencies through collaborative working with others.

Identifying opportunities must continue at a local level with partners and other organisations, ensuring that realistic and deliverable benefits are achieved. In addition, a strengthened approaches 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 and to develop a partnership approach with public sector partners to working with communities across the borough.

8.3.6 GYBC Operating Model – Ensuring that the model for delivery of services is the most efficient and effective and that this is challenged where necessary.

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 provides an opportunity to continue to review service delivery and the strategic capacity of the organisation. This also ensures 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.

Specific work strands which will continue to drive efficiency, savings, support and other themes as detailed above, include the following:

a) **Digital by Design** /Digital Strategy - To provide an on-line service for residents, businesses and visitors that is supported by a seamless transfer of data in the back office and ensuring that staff have the ability to work in the most effective way with the appropriate tools which 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 has been undertaken, with the establishment of clear specifications for service delivery under the arrangement, developing pro-active budget management of the service and ensuring 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.

8.3.7 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 the Management Team to develop savings and additional income proposals that can be presented for consideration as part of the 2019/20 budget report. These will include some proposals that are operational and improved efficiencies, as well as those that will be subject to Member consideration and approval.

8.3.8 As the projects for the above themes 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 2019/20 budget.

8.4 Savings and Additional Income

8.4.1 As part of the budget work for 2019/20 officers have been asked to put forward savings and additional income proposals for consideration as part of the 2019/20 and future budgets proposals. These will presented for approval as part of the budget reports in January and February 2019. These will fall into classifications of the above themes and will cover the following:

a) Operational proposals –these proposals include cover savings and additional income identified from internal reviews of current service delivery and those that can be achieved from no changes to current policy, potential savings of £350k to £450k per annum;

b) Proposals that require consideration and approval by Policy and Resources Committee as part of the budget process, potential savings of £400k to £540k per annum;

c) Areas that are being recommended for further review in the longer term to achieve savings and efficiencies, i.e. beyond 2019/20, potential savings of £150k to £170k.

8.5 Use of Reserves – Invest to Save

8.5.1 Use of reserves to balance a budget provides only a short-term solution as the funds can only be used once. Reserves can however be used to smooth the impact of funding reductions and fluctuations in funding 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.

8.5.2 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.

8.6 Updated Financial Forecast

8.6.1 The following table summarises the updated financial position allowing for the indicative financial targets identified at 8.4.

	2019/20 £000	2020/21 £000	2021/22 £000
Forecast Budget Gap (section 4)	859	2,472	3,146
Savings and Income Proposals	(750)	(910)	(910)
Updated GAP	**109**	**1,562**	**2,236**

8.6.2 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 2019/20 of just over £100k, increasing to just over £2.2 million by 2021/22. 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 financial settlement for 2019/20 are announced the budget and forecasts will be updated as applicable.

8.6.3 The updated position above is prior to the detailed work on the budget for 2019/20 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.

8.6.4 If the Council is required to identify further saving of in the region of £2 million there would need to be a further review of the Councils operating business model, including a zero based budget approach to inform a fundamental review to identify and deliver savings and additional income.

9. SENSITIVITY ANALYSIS AND RISKS

9.1 The Council works within a number of legislative and funding constraints . The continuing downward pressure on external resources continues to constrain the level of service delivery that the Council is able to provide. The annual budget and financial planning process aims to ensure 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 in full ahead of approving the budget and the council tax for the coming year.

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 2%, the Council is part of a national pay agreement and as a guide for GYBC, 1% equates to approximately £90,000 annually. 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 income per annum being retained. Depending on the outcome of the pilot application to retain 75% of the business rates for 2019/20. There will be further collaborative working with all of the Norfolk authorities (If this is supported) 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 no new NHB allocation for 2019/20. Increases in the tax base 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. 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 2019/20 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 could 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 Strategy. The detail of the 2019/20 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 2019.

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 current work on the fair funding review and increased business rates retention will have an impact on the resources available from 2020/21 onwards.

9.11.2 The greater emphasis on retaining funds from business rates locally to fund the provision of services provides increased risks to funding. 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 business premises becoming empty. Equally, business growth and addition of new businesses to the baseline will have a positive impact on funding. Business rates appeals can have a negative impact on the level of retained business rate. Whilst the scheme does provide an incentive for promoting and delivering growth in local economies, the impact of appeals and business decline can have a negative impact.

9.11.3 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.

9.11.4 Where the government announces business rate relief extensions, it is assumed that the financial impact is mitigated by the section 31 grant.

9.11.5 **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.

9.11.6 **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.

9.11.7 **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.

9.11.8 **New Homes Bonus** – The risks around NHB have been demonstrated from the inability to achieve the baseline of growth, which has restricted the ability to achieve new grant payments for NHB. 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 spending review and whether the NHB continues to be a feature of local government funding.

9.11.9 **Fair Funding Review and Spending Review 2019 –** Further consultations on the fair funding review will be undertaken during 2019, until the detail of this and the spending review are announced the Council continues to operate with a greater level of uncertainty in terms of future funding.

9.12 **HRA –** As flagged previously the removal of the debt cap for the HRA will provide greater flexibility and opportunity for the HRA in terms of provisions of replacement and additional housing for the HRA as well as maintaining existing stock. Additional borrowing must still be able to demonstrate affordability and modelling and scenario planning will be undertaken to inform future decisions.

Glossary of Acronyms – Financial Strategy

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

Appendices

CORE SPENDING POWER

1.1 Core Spending Power is 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* - annual allocations based on housing growth;
- Improved Better Care Fund Income
- Rural Services Delivery Grant
- Transition Grant - payable in 2016/17 and 2017/18 where applicable
- 2017/18 Adult Social Care Support Grant
- Council Tax Income – allowing for tax base growth and annual increased to the referendum limits, i.e. higher of 3% or £5*.

1.2 The 2018/19 settlement reflected the continuation of the shift from centrally allocated funding system to a funding system that is more localised from Council Tax growth, local business rates growth through retention of business rate income and from New Homes Bonus from additional grant allocations linked to increases in properties and bringing long term empty properties back into use.

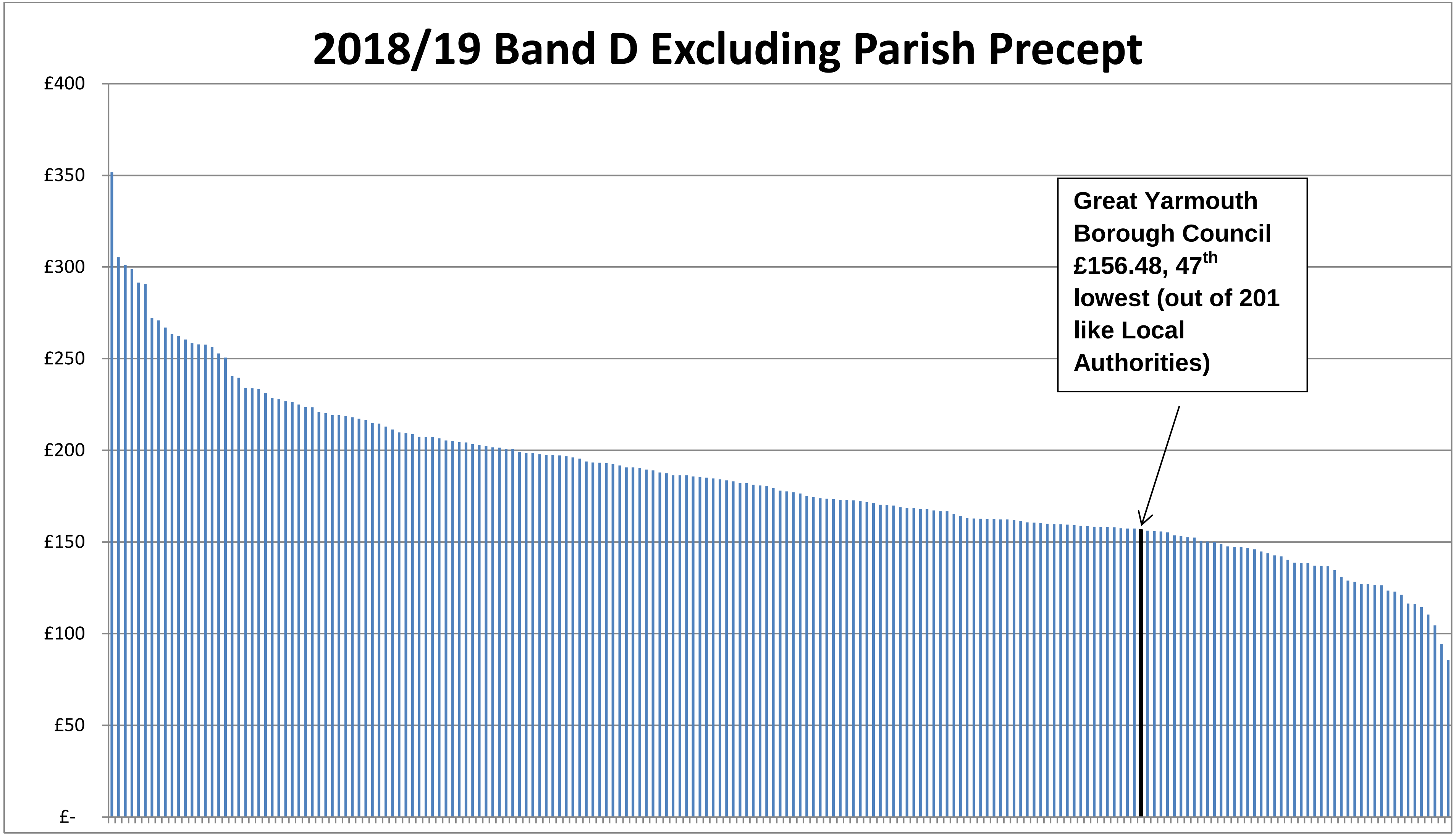
1.3 Table A provides a summary of Core Spending Power for GYBC for the four year period of the multi-year settlement.

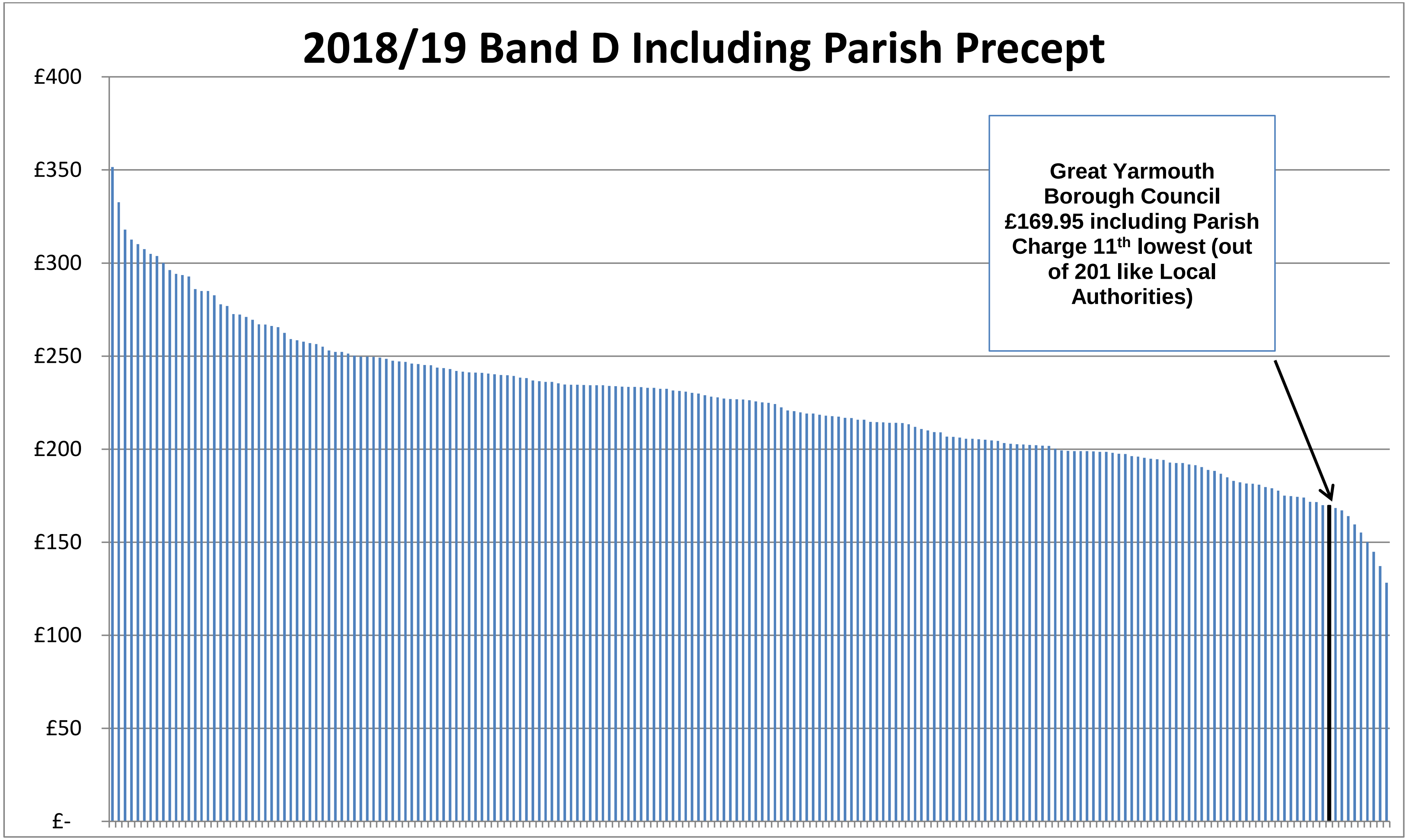
Table A - Core Spending Power	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Settlement Funding Assessment:				
Revenue Support Grant	3,740	3,007	2,545	2,029
Baseline Funding Level	3,515	3,587	3,694	3,776
Settlement Funding Assessment Total	7,255	6,593	6,239	5,806
Compensation for under-indexing the business rates multiplier	51	46	77	116
Council Tax of which;				
Council Tax Requirement excluding parish precepts (including base and levels growth)	3,914	4,085	4,290	4,505
Potential additional Council Tax from £5 referendum principle for all Districts	0	57	72	84
Council Tax	3,914	4,142	4,362	4,590
New Homes Bonus	1,377	1,063	628	543
New Homes Bonus returned funding	8	9	0	0
Core Spending Power	**12,605**	**11,853**	**11,306**	**11,054**
Change over the Spending Review period (from 2015/16 £ 000)				(2,131)
Change over the Spending Review period (% change)				-16.2%

1.4 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 B Settlement Funding Assessment	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Settlement Funding Assessment:					
Revenue Support Grant		3,740	3,007	2,545	2,029
Baseline Funding Level		3,515	3,587	3,694	3,776
Total Settlement Funding Assessment	8,135	7,255	6,593	6,239	5,806
Movement - Year on Year					
Revenue Support Grant £ (Reduction)			(733)	(462)	(516)
Revenue Support Grant % Reduction			-19.6%	-15.4%	-20.3%
Baseline Funding Level £ Increase			72	108	82
Baseline Funding Level % Increase			2.0%	3.0%	2.2%
Total Settlement Funding Assessment (Reduction) £		**(880)**	**(661)**	**(354)**	**(434)**
Total Settlement Funding Assessment (Reduction) %		-10.8%	-9.1%	-5.4%	-7.0%

1.5 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.


2018/19 Band D Excluding Parish Precept
£400
£350
£300
£250
£200
£150
£100
£50
£-
Great Yarmouth Borough Council £156.48, 47th lowest (out of 201 like Local Authorities)


2018/19 Band D Including Parish Precept
£400
£350
£300
£250
£200
£150
£100
£50
£-
Great Yarmouth Borough Council £169.95 including Parish Charge 11th lowest (out of 201 like Local Authorities)

Appendix C

General Fund Reserves Schedule - Financial Strategy Update	Summary and Purpose of Reserve	Closing Balance 31/03/18 £	Forecast Movement 2018/19 £	Updated Closing Balance 31/03/19 £	Forecast Movement 2019/20 £	Closing Balance 31/03/20 £	Forecast Movement 2020/21 £	Closing Balance 31/03/21 £
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	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.	169,679	0	169,679	0	169,679	0	169,679
Town Centre Initiative	Earmarked for spend in relation to the town centre project.	253,147	(240,728)	12,419	0	12,419	0	12,419
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	493,039	0	493,039
Restricted use grant	This reserves holds unspent grants received for specific purposes for which the spend has not yet been incurred.	981,223	(151,910)	829,313	(108,846)	720,467	(37,528)	682,939
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.	1,706,147	(438,776)	1,267,371	(22,930)	1,244,441	0	1,244,441
Specific budget	This reserve is utilised as expenditure is incurred.	102,568	0	102,568	0	102,568	0	102,568
LEGI	As costs are incurred, these are offset by the reserve.	523,671	0	523,671	0	523,671	0	523,671
Repairs and Maintenance	This reserve is utilised as expenditure is incurred.	298,846	(42,895)	255,951	0	255,951	0	255,951

General Fund Reserves Schedule - Financial Strategy Update	Summary and Purpose of Reserve	Closing Balance 31/03/18 £	Forecast Movement 2018/19 £	Updated Closing Balance 31/03/19 £	Forecast Movement 2019/20 £	Closing Balance 31/03/20 £	Forecast Movement 2020/21 £	Closing Balance 31/03/21 £
Second Homes Council Tax	This reserve is utilised as expenditure is incurred.	155,962	0	155,962	0	155,962	0	155,962
Waste Management	This reserve is utilised as expenditure is incurred in relation to the service.	25,170	0	25,170	0	25,170	0	25,170
Collection Fund (Business Rates)	Earmarked to mitigate the fluctuations in business rate income between years.	2,545,615	0	2,545,615	0	2,545,615	0	2,545,615
Neighbourhoods	Earmarked from previous grants for neighbourhood projects.	618,603	0	618,603	0	618,603	0	618,603
Enforcement	Earmarked for enforcement related works to address issues and bring properties back into use.	47,590	(1,568)	46,022	0	46,022	0	46,022
Special Project Reserve	Earmarked as per the 2017/18 budget report for project spend and also for matched funding as appropriate.	812,362	(569,589)	242,773	(44,533)	198,240	0	198,240
Benefits/Revenues Reserve	Earmarking of grants and underspends to be used for the service and mitigation of subsidy impacts.	155,000	0	155,000	0	155,000	0	155,000
Other Reserves	These Reserves are utilised as expenditure is incurred.	304,446	(277,600)	26,846	0	26,846	0	26,846
Total GF Earmarked Reserves		**9,255,425**	**(1,723,066)**	**7,532,359**	**(176,309)**	**7,356,051**	**(37,528)**	**7,318,523**
General Fund Reserve	Current recommended balance of £2.5 million	4,642,356	**(733,000)**	**3,909,356**	**(700,000)**	**3,209,356**	**0**	**3,209,356**
Total GF Reserves		**13,897,781**	**12,291,635**	**11,441,715**	**(876,309)**	**10,565,407**	**(37,528)**	**10,527,879**