Subject: Medium Term Financial Strategy 2017/18 to 2020/21

Report to: Policy and Resources Committee 29 November 2016

Report by: S 151 Officer

SUBJECT MATTER/RECOMMENDATIONS
This report presents an updated medium term financial strategy for the period 2017/18 to 2020/21. The strategy has been updated to support the current Plan and will be used to inform the detailed budget for 2017/18.

1. INTRODUCTION/BACKGROUND

1.1 The attached document "Medium Term Financial Strategy 2017/18 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.

1.2 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.

1.3 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 2015/16 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 2017/18 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 2017.

1.6 The Council has recently received confirmation that they are eligible for the multi-year settlement. As part of the Local Government Finance Settlement announcement ahead of the 2016/17 budget the Government made an offer of a multi-year settlement for the period 2016/17 to 2019/20. Confirmation of the funding albeit at a reducing level each year allows for greater certainty around grant funding to inform a longer term financial position.

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 2017/18 to 2020/21 which will be revised over the coming months as the full detail of the budget for 2017/18 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 2017/18 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 £500,000 for 2017/18; work is ongoing on the detailed budget to present to members for approval in February 2017. 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 current financial forecast for the period 2017/18 to 2020/21;

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

5. BACKGROUND PAPERS

5.1 Current year budget monitoring reports, 2015/16 outturn report, finance settlement.

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 2017/18 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 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.

1.4 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 the resources available and outlines the financial projections for the following four financial years (beyond the current year). 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.

1.6 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.

1.7 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.

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

1.9 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 2016 taking into account known changes to expenditure and income forecasts and revised forecasts 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.

2. BACKGROUND AND CONTEXT

2.1 The 2016/17 budget was set and approved in February 2016. 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 2017/18 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 2017/18 budget and future forecasts.

2.3 The financial projections have been updated to reflect the latest indications of government 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:

- Economic Outlook (2.5)
- Funding (2.6)
- Business Rates Retention (2.6)
- New Homes Bonus (2.7)
- Local Council Tax Support (2.9)

2.5 National Economic Outlook

2.5.1 The Bank of England has kept the bank rate at 0.25% and has made no change on the quantitative easing front.

2.5.2 The Bank has changed its inflation outlook and now foresees a breaching of the 2% target in the second quarter of 2017. Despite breaching the ceiling, the Monetary Policy Committee announced that there will be a limited tolerance for above target inflation.

2.5.3 The Halifax House Price Index rose to a seasonally adjusted 1.4% in October from 0.3% the preceding month, exceeding the 0.2% predicted by economists polled by Reuters. Halifax have commented that the growth was rather unexpected. However, due to Brexit related uncertainty, it suggested that price growth will likely ease in the upcoming months. Nevertheless, low mortgage rates and a shortage of properties for sale should still provide some support in the future. The shortage seems to be creating an imbalance between supply and demand and hence lifting residential house prices.

2.5.4 Britain's trade deficit with the rest of the world has surprisingly widened in September. It had been expected that the dramatic fall in the pound would have stimulated a pick-up in foreign demand for exports, thereby reducing the deficit. Instead, the UK trade in goods deficit increased by £1.6 billion over the month, to £12.7 billion. Imports increased by £1.3 billion to £38.8 billion, while exports fell by over £200 million to £26.1 billion. The Office for National Statistics commented that the increase in imports was largely due to increases in demand for ships, materials and oil.

2.6 Funding

2.6.1 In December 2015 a four year provisional Local Government Finance settlement was announced which was then finalised in February 2016. Whilst there were some changes in terms of allocations of funding in the final settlement the key messages were as follows:

a) **Four Year Settlement** - The settlement covered a four year period 2016/17 to 2019/20, although the acceptance of the four-year settlement is dependent upon the production of an efficiency plan which needed to be approved and published by 14 October 2016. Confirmation has now been received that the Council is eligible for the multi-year settlement.

b) **RSG Reductions** – One of the main changes in the settlement announcement for 2016/17 was that the Revenue Support Grant allocations have taken into account Local Authorities ability to generate resources from Council Tax and those with higher tax bases have seen higher reductions in RSG. Over the four years there is a reduction in total RSG being allocated of just under £5billion, with approximately 170 authorities no longer receiving RSG by 2019/20 (final year of the four year settlement).

c) **Council Tax Income** - The shift in generating resources locally, i.e. through the increasing of Council Tax is a factor that has been assumed in the four-year settlement. This is based on the assumption that local council tax is increased in line with the council tax referendum principles announced within the settlement which essentially allow council tax annual increases of the higher of 2% or £5.

d) **Social Care** - A new 2% Social Care precept for council tax has been announced for those authorities with responsibility for social care (i.e. County and Unitary).

e) **NHB –** The New Homes Bonus allocation methodology remained the same for 2016/17, although future allocations will be subject to change as a result of the consultation, which closed in March 2016 for which the outcomes are yet to be announced.

Revenue Finance

2.6.2 Within the 2016/17 settlement the Government used a measure of "Core Spending Power (CSP)" which sets out potential revenue income for Local Authorities for the period 2017/18 to 2019/20 from a number of funding sources:

- Settlement Funding Assessment – comprising of Revenue Support Grant (RSG) and Retained Business Rates (Baseline Funding level including where necessary tariff and top up adjustments);
- Council tax requirement (excluding parish precepts) - i.e. income generated locally from Council Tax;
- New Homes Bonus allocation;
- Rural Services Delivery Grant (where applicable).

2.6.3 A number of assumptions have been made within the future years Core Spending Power as included in the finance settlement, for each of the income sources the assumptions are outlined below:

a) Annual reductions have been made to the RSG;

b) Annual increases to the business rates baseline in line with RPI;

c) Council Tax Base Growth – it has been assumed there will be annual growth in the Council Tax base throughout the period to 2019/20. The level of growth has been based on the average annual growth in the council tax base between 2013/14 and 2015/16 throughout the period to 2019/20.

d) Council Tax Increases – the settlement assumed that Local Authorities will increase their Band D council tax in line with the Office for Budget Responsibilities (OBR) forecast for CPI for each year (which is an annual average of 1.75%) throughout the period to 2019/20, rather than the 2% allowed before triggering a referendum.

e) Additional Council Tax – the potential additional council tax available from the adult social care council tax flexibility has been estimated by assuming all eligible local authorities take up the adult social care flexibilities announced at the Spending Review in each year to 2019/20.

f) Additional council tax available from a £5 cash principle – it has been assumed that all eligible councils will increase council tax by the higher of 2% or £5 where applicable.

g) New Homes Bonus – for 2016/17, the settlement included the actual allocations along with returned funding. For 2017/18 onwards the settlement assumes that the total funding (after planned reductions of at least £800 million to be released for the improved Better Care Fund) is apportioned to local authorities based on the allocations in 2016/17.

h) Rural Services Delivery Grant - This provided £80.5 million of funding in 2016/17, £65 million in 2017/18, £50 million in 2018/19 and £65 million in 2019/20. This funding is distributed to the top-quartile of authorities ranked by super-sparsity, as per the distributional methodology for the Rural Services Delivery Grant indicator in 2015/16 (GYBC does not receive this grant).

i) Transitional grant funding of £150million was allocated in 2016/17 and 2017/18 to mitigate the impact of the pace of the central government funding reductions.

2.6.4 A key feature of the 2016/17 settlement is the recognisable shift from centrally allocated to funding to a more localised funding system. 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.

2.6.5 Table 1 provides a summary of the main elements of Spending Power as included in the 2016/17 finance settlement for the four-year period.

Table 1 - Core Spending Power **FINAL**	**2015/16 Adjusted** **£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	3,584	3,690	3,808
Modified Settlement Funding Assessment (MSFA)	8,135	7,255	6,591	6,235	5,837
Council Tax:	3,831	4,028	4,231	4,439	4,653
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 all districts	0	82	147	208	265
New Homes Bonus and returned funding	1,168	1,385	1,393	875	839
Rural Services Delivery Grant	0	0	0	0	0
Core Spending Power (as per announcement)	**13,134**	**12,668**	**12,214**	**11,549**	**11,330**
Reduction £		(466)	(454)	(665)	(219)
Reduction %		-3.5%	-3.6%	-5.4%	-1.9%
					(1,805)
					-13.7%

2.6.6 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 Fund Assessment

		Four Year Settlement Period				*Forecast*
	2015/16 Adjusted £000	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	***2020/21 £000***
Settlement Funding Assessment:						
Revenue Support Grant		3,740	3,007	2,545	2,029	*0*
Baseline Funding Level		3,515	3,584	3,690	3,808	*3,911*
Total Settlement Funding Assessment	8,135	7,255	6,591	6,235	5,837	*3,911*
Movement - Year on Year						
Revenue Support Grant £ (Reduction)		3,740	(733)	(462)	(516)	*(2,029)*
Revenue Support Grant % Reduction			-19.6%	-15.4%	-20.3%	*-100.0%*
Baseline Funding Level £ Increase		3,515	69	106	118	*103*
Baseline Funding Level % Increase			1.967%	2.950%	3.196%	*2.700%*
Total Settlement Funding Assessment (Reduction) £		**(880)**	**(664)**	**(356)**	**(398)**	***(1,926)***
Total Settlement Funding Assessment (Reduction) %		-10.8%	-9.2%	-5.4%	-6.4%	*-33.0%*
					(2,298)	*(3,344)*
					-28%	*-46%*

2.6.7 The above summary shows the four-year settlement includes RSG up until 2019/20. The last column has been included as a forecast showing that the RSG has been assumed to longer be receivable after 2019/20 and the significant impact that the removal of this funding will have to the Council.

Business Rates Retention

2.6.8 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 grow in line with RPI each year, other revisions will be when the business rate system is reset (in 2020 as stipulated in the current government policy) or at the time of a revaluation (due to come into effect in 2017)[1];

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

[1] It is expected that as part of the re-valuation top-ups and tariffs will be recalculated in order that Local Authorities do not lose or gain specifically due to revaluation.

outside any business rates pool[2]) to ensure there is not disproportionate growth within the overall system;

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.

2.6.9 Previous Autumn statements have included a package of business rate relief measures to support businesses, including the following:

a) A 2% cap on the inflation increase for 2014/15 and 2015/16 instead of the annual RPI increase;

b) Extension of the small business rate relief, doubled from 50% to 100% for properties with a rateable value of £6,000 or less;

c) A discount of £1,500 for all retail, pubs and restaurants with a rateable value below £50,000 for two years up to state aid limits, from 1 April 2014, this relief ended in March 2016;

d) Relaxation of the small business rate relief for a second property allowing continuation of the relief for 12 months.

2.6.10 Local Authorities are being 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 are recompensed accordingly as the current system.

2.6.11 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.

2.6.12 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	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Retained Business Rates	12,143	12,244	12,485	12,853	13,264
Less Tarriff	(8,657)	(8,729)	(8,901)	(9,163)	(9,456)
Baseline Funding	3,486	3,515	3,584	3,690	3,808
Movement £000		29	69	106	118
Movement %		0.8%	2.0%	3.0%	3.2%

2.6.13 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

[2] GYBC (and Norwich City) are not currently part of the Norfolk Business Rates pool but still have the ability to bid for funds from the pool.

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. The forecast of a deficit on the 2015/16 business rates collection fund was taken into account within the 2016/17 NNDR1 return and in determining the respective values of the shares of the business rates income for the year. The actual position at 31 March 2016 compared to the estimate will be adjusted in the 2017/18 shares. 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.

2.6.14 **100% Retention of Business Rates**

2.6.15 As part of the 2015 Spending Review, the Government announced that the current system for local government finance would change allowing 100% retention of business rate income by the end of the current Parliament. A consultation titled "Self-sufficient local government: 100% Business Rates Retention" was issued earlier in the year and there is expected to be a further technical consultation late 2016. The announcement of 100% retention is a move towards "self-sufficiency" at a local level and a shift from funding dependence on central government. The consultation paper also details grant funding streams that have been identified as a possible fit against the criteria for being funded through retained business rates, in particular for GYBC these include the following:

a) Revenue Support Grant

b) Local Council Tax Support Administration.

2.7 New Homes Bonus

2.7.1 The New Homes Bonus (NHB) was introduced in 2011/12 to incentivise and reward councils and communities for building new homes in their areas. As announced within the 2015 Spending Review the Government issued a consultation on changes to the new homes bonus system that will come into effect from 2017/18. The following outlines the <u>current</u> methodology:

a) The grant is payable for six years (paid under section 31 of the Local Government Act 2003);

b) The grant is calculated by multiplying the national average council tax by the net additional homes growth;

c) An additional supplement of £350 per affordable dwelling is payable;

d) The payment of NHB is split between local authority tiers; 80% to the lower tier (GYBC) and 20% to the upper tier (NCC);

e) The net additional growth includes growth in housing unit numbers (after demolitions) and reduction in long term empty properties;

f) 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).

g) The calculation of the bonus does not take into account planning permissions or any other elements of the planning processes.

2.7.2 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. The future financial projections as reported in February 2016 reflected the allocations as announced in the 2016/17 finance settlement.

2.7.3 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
	£'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
2014/15				119	119	119
2015/16					208	208
2016/17						220
Total	**274**	**508**	**829**	**949**	**1,157**	**1,377**

2.7.4 The outcomes of the consultation on the future of the NHB have yet to be announced. The main proposed changes to the scheme are as follows:

a) Reduction to a four year system (from the current six years);

b) Allocations linked to planning, including abatements for non-delivery of a local plan and, where housing developments are approved, on appeal.

2.7.5 Nationally up to and including the 2016/17 Local Government Finance Settlement, funding in the region of £4.9 billion has been allocated through the New Homes Bonus scheme. By the end of 2016/17, GYBC will have received just over £5.094million, and therefore this still represents a significant funding resource for the Authority. Future changes to the allocation and distribution method still represent a significant risk in terms of future funding allocations.

2.7.6 The following provides a summary of the NHB provisional allocations announced within the finance settlement for the period 2017/18 to 2021/22 as part of the Council's spending power although these could be subject to change depending on the new scheme.

Table 5	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
LGFS Announcement (Feb 2016)	1,377	1,393	875	840

2.7.7 The funding for 2017/18 (as outlined in the table above) would require 244 net growth/reduction in long term empty properties as per the current methodology. The lack of announcements following the NHB consultation earlier in the year could suggest a greater risk to the future funding availability from this source and therefore the projections included in section 4 have been updated to reduce the funding forecast in 2017/18 from the NHB. Further announcements are expected in the Autumn Statement and the full impact will be factored into the 2017/18 detailed budget and future financial forecasts.

2.7.8 Assuming a reduction to the scheme funding to that level recently published via the DCLG online, it would be prudent to scale back the annual allocations of NHB to the level included in the following table.

Table 6	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Revised Forecast	1,377	1,103	869	548
Impact to Financial Projections	0	290	6	292

2.8 **Autumn Statement**

2.8.1 The Autumn Statement by the Chancellor of the Exchequer will be made on 23 November 2016. It is anticipated to include statements in relation to Brexit and the impact to the economy. The implications of the Autumn Statement will then be quantified and included in the detailed budget for 2017/18 and used to inform the future financial projections.

2.9 **Local Council Tax Support (LCTS)**

2.9.1 The LCTS scheme was implemented in April 2013 as a replacement to Council Tax Benefit as part of a national funding reduction programme and to encourage people to work. Previously the scheme was 100% funded through subsidy paid to the Council from the Department for Work and Pensions (DWP). From April 2013 each billing authority was given 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 they did under the system of Council Tax Benefit.

2.9.2 Funding for LCTS is no longer received as a separate subsidy grant but is now 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.

2.9.3 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%.

2.9.4 The Policy & Resources Committee received the consultation document for 2017/18 recommendations on the scheme on 18 October 2016 and Full Council on 3 November 2016 approved no changes to the scheme for 2017/18. This position has been included in the future financial projections.

2.9.5 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, by passing the grant to town and parish councils provide some mitigation in terms of funding from changes to the tax base from the LCTS scheme.

3. RESOURCES

3.1 The Council's net current revenue budget for 2016/17 (excluding Parish and Town Council Precepts) is £12.6 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 7 – Funding Sources	**2016/17 Budget £000**
Council Tax – Borough	3,914
Retained Business Rates	3,515
Revenue Support Grant	3,740
New Homes Bonus	1,377
Total	**12,546**

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.

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 2016/17 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 2016/17 the tax base was set at 26,722 (an increase of 567 from 2015/16).

3.2.4 Table 8 below shows the current forecast of Council Tax income for the period 2017/18 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[3].

[3] 3 November 2016 Full Council approved changes to council tax discounts for second homes and empty properties.

Table 8 - 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	4,059	4,264	4,475	4,637
Increase/(Decrease) in Yield	n/a	59	83	145	204	211	162
Note the Council Tax Income equates to the tax base multiplied by the Band D equivalent. Forecasts from 2017/18 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. The proposed fees and charges for 2017/18 in line with the policy are being reported to Members ahead of the approval of the 2017/18 budget process to allow informed estimates to be included and also for implentation.

4. FINANCIAL FORECAST UPDATE

4.1 The 2016/17 budget was approved in February 2016, 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 £885k in 2017/18, increasing to £1.75million in 2018/19 and £2.2million in 2019/20. This forecast position was after allowing for projected savings and income from a number of proposals agreed as part of the 2016/17 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 2016/17 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. The detailed budget for 2017/18 will be produced later in the year and revised forecasts updated to reflect the latest funding announcements.

4.5 The detailed budget for 2017/18 will be produced later in the year, this will presented for approval in February 2017 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 2015/16 outturn position are necessary. The following commentary provides further information as applicable:

4.6.1 Service Income – The income profile for Beacon Park has been updated resulting in a reduction of income in 2017/18 of £511k, with minimal change to future years. A reduction of £106k relating to the administration grant for Benefits, has also been recognised. 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. Following the announcement by the Chancellor of the introduction of a National Living Wage by 2020/21 the forecasts have been updated to reflect the impact to direct employee budgets over the period covered by the financial strategy. The impact on contractors has not yet been quantified and has therefore not been included at this time.

4.6.3 Business Rates – The forecasts have been informed by the outturn position on the 2015/16 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.

4.7 Table 9 provides a summary of the revised position taking into account all the factors identified above, these are based on the current service delivery.

Table 9 - Updated Financial Forecast			
	2017/18 **£'000**	**2018/19** **£'000**	**2019/20** **£'000**
Forecast Gap (as reported February 2016)	885	1753	2209
Service Spending Pressures	77	77	77
Service Income	884	337	321
Non Service Spending Pressures	(156)	(122)	88
Revised Funding Forecasts:			
Retained Business Rates (net of Levy)	(250)	(280)	(290)
Section 31 Grant	(400)	(400)	(400)
Council Tax	(15)	0	0
NHB	290	6	292
Revised Forecast Budget Gap	1,315	1,371	2,297

4.8 The revised financial projections are now forecasting a budget gap of just over £2million by 2019/20. 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 been 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 Council has, in the short term, kept the HRA reserves levels high in order to mitigate this loss of revenue. Community Housing has carried out a review of 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 Although details are still to emerge, it is clear that the Council needs to prepare for further reduction in resource available to manage, maintain, improve and add to its housing stock. In addition, additional costs may be incurred through administration of the new regulations.

5.1.4 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.

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

5.1.6 A new Asset Management strategy has been agreed between Great Yarmouth Norse (GYN) and the Council and known changes to the revenue maintenance plans have been reflected in the future budgets. Crucially, as part of the Asset management strategy, a refreshed stock condition survey started in 2016/17, concluding into 2017/18 and will 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.

5.1.7 The impact of the latest forecasts and changes to the investment plans are reported separately in the Housing Major Works Capital Programme.

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 The Housing and Planning Bill makes provision for grants to be made to private registered providers in respect of Right to Buy (RTB) discounts. The grants may be made by the Secretary of the State, the Homes and Communities Agency (HCA) and, in relation to dwellings in London, the Greater London Authority.

5.3.2 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.

5.3.3 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.

5.3.4 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.

5.3.5 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 **Pay to Stay**

5.4.1 The Housing and Planning Bill made provision for the charging of rent with reference to the market rate or other factors based on income and housing area. The original announcement referred to relevant, income levels of households outside of London of £31k pa

5.4.2 On 22 November, The Government announced that it no longer intends to make 'Pay to Stay' compulsory for Council tenants.

5.5 **Capital Financing Costs**

5.5.1 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 draft HRA budget.

5.5.2 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.

5.5.3 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.**Right to Buy Discounts and Retained Receipts**

5.6.1 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.

5.6.2 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.

5.6.3 The HRA has plans for new affordable housing which covers the spend of the RTB retained receipts. This includes looking at options for new build sites, including 6 properties on the Beacon Park development and an in-fill site in Gorleston which has recently been granted planning permission for a further 6 properties. Other sites are also being considered as part of the Local Plan ‘call for sites.’

5.6.4 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.

5.7 **Future Plans**

5.7.1 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.

5.8 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 stock condition survey and the resourcing of those plans including the impact of RTB sales and social rent policy.

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[4].

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
- 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 2016 was £6.35 million, after allowing for planned movements, the balance by 31 March 2017 is expected to be £5.3 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

[4] Full Council Agenda February 2016, Agenda Item No. 4

- 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 – a £1 million reserve established in 2015/16 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.
- Town Centre Indicative – This reserve earmarks funding for regenerating and developing the Great Yarmouth town centre through a variety of projects. As at 31st March 2016 the balance on this reserve was £0.595 million.
- Collection Fund National Non-domestic Rates safety net reserve - Established as part of the 2014/15 accounts audit in respect of the business rates safety net. The reserve had a balance of £1.197 million as at 31st March 2016. Use of this reserve will be to offset return of monies to the Government or as a result of appeals, not currently available for spend.

6.12 All reserves general and earmarked will be reviewed over the coming months as part of setting the detailed budgets for 2016/17, 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. The balance of capital receipts at 31 March 2016 was approximately £0.692 million.

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 MTFS does not currently rely on the use of reserves over the medium term. 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 2016/17 period 6 budget monitoring report within the November 2016 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 2016/17 (adjusted for changes due to project slippage in 2016/17), together with current forecasts for 2017/18 and 2018/19, along with a breakdown of the relevant scheme financing.

Table 10 - Summary of the Current Revised Capital Programmes (£000)

2016/17	Capital Programme Revised Expenditure	Financing			
		Unsupported Borrowing	DFG	Other Grants & Contributions	Capital Receipts
Housing & Neighbourhoods	4,468	1,981	567	1,750	170
Resources, Governance & Growth	4,362	2,012	-	2,350	-
Customer Services	1,333	1,333	-	-	-
Transformation team	-	-	-	-	-
TOTAL	**10,163**	**5,326**	**567**	**4,100**	**170**

2017/18	Capital Programme Revised Expenditure	Financing			
		Unsupported Borrowing	DFG	Other Grants & Contributions	Capital Receipts
Housing & Neighbourhoods	17,107	16,540	567	-	-
Resources, Governance & Growth	8,050	8,050	-	-	-
Customer Services	200	200	-	-	-
Transformation team	-	-	-	-	-
TOTAL	**25,357**	**24,790**	**567**	**-**	**-**

2018/19	Capital Programme Expenditure	Financing			
		Unsupported Borrowing	DFG	Other Grants & Contributions	Capital Receipts
Housing & Neighbourhoods	800	233	567	-	-
Resources, Governance & Growth	-	-	-	-	-
Customer Services	200	200	-	-	-
Transformation team	-	-	-	-	-
TOTAL	**1,000**	**433**	**567**	**-**	**-**

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 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.

	Proposed Budget £000	**Unsupported Borrowing £000**	**Capital Receipts £000**	**Revenue Funding £000**
2016/17 (revised	9,420	2,100	890	6,430
2017/18	7,651	2,052	877	4,722
2018/19	6,497	1,000	569	4,928

8. FINANCIAL AND BUSINESS STRATEGY AND KEY THEMES

8.1 The preceding sections set out the revised financial forecast for the period 2017/18 to 2020/21 and some of the context within which the forthcoming budget setting will be set.

8.2 The Council's strategy therefore is 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. There are currently over 1,900 planning permissions granted but not yet implemented across the Borough and a commitment as part of the five year land supply to provide an additional 300 houses per annum, increasing to nearly 500 per annum in later years. If the Council were able to accelerate this 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.

The current forecast is based upon the government's projections and assumes growth based on previous years. An additional 300 properties would generate in the region of £45,000 per annum alone. A further review of the empty properties strategy will be undertaken with a view to bringing more houses and shop premises back into use by using the collective range of enforcement powers available to the Borough.

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.

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. An example of this is the work currently ongoing at Beacon Park for new and current businesses.

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.

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 already underway or completed. 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. 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. This initial piece of work, which would include benchmarking and possibly soft market testing, would inform any future recommendations to review contracts

c) **Enforcement Strategy** – Outcomes of the enforcement board to bring 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 The following table provides a summary of the indicative financial targets for the above themes, where agreed plans and projects have commenced, or are planned and will not require any policy changes. These have been informed by joint work between officers and members as part of the preparatory work on the budget process for 2017/18. 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 2017/18 budget.

Table 11 - Savings and Additional Income	2017/18	2018/19	2019/20	2020/21	Total
	£000	£000	£000	£000	£000
Digital by Design	6	21	41	41	109
GYBC Operating Model	339	563	618	657	2,178
Partnership and Integration	23	30	38	26	117
Procurement and Contract Management	260	70	75	75	480
Strategic Asset Management*	(8)	32	35	35	93
Grand Total	**621**	**716**	**807**	**834**	**2,977**
* 2017/18 allows for costs of implementing changes in year 1					

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. In February 2016, the Council approved the allocation of £1million to an Invest to Save Reserve. This was established to fund one-off costs that will deliver future savings and can include officer restructure costs where the restructure or changes to working can deliver an ongoing saving to the Council.

8.4.3 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.

8.4.4 To date £46,911 has been allocated from the invest to save reserve for the purchase of mobile devices that will deliver an ongoing saving to the revenue account. The following is used to approve allocations from the reserve:

a) Proposals should deliver a break even solution (after costs) to the Council within four years;

b) Amounts to be allocated from the reserve should be in line with the current virement limits and rules included in the constitution.

8.5 Updated Financial Forecast

8.5.1 The following table summarises the updated financial position allowing for the indicative financial targets identified at table 11 and referred to in section 8.3.

Table 12 - Updated Financial Forecast	2017/18	2018/19	2019/20
	£000	£000	£000
Forecast Budget Gap (Section 4, Table 9)	1,315	1,371	2,297
Savings and Income targets	(621)	(716)	(807)
Grand Total	**695**	**655**	**1,490**

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 2017/18 of just under £700k, increasing to just under £1.5 million by 2019/20. 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 2017/18 are announced the forecast will be updated as applicable.

8.6 **Savings and Additional Income from Fees and Charges**

8.6.1 Approval of proposals to deliver savings and additional income streams will be made as part of the 2017/18 budget report. In the meantime there is a report to the Policy and Resources Committee in November 2016 which will then go to Full Council for approval in December 2016 to set fees and charges for 2017/18.

8.6.2 The reason for presenting the fees and charges for approval ahead of the detailed budget report is to allow implementation time where applicable and also to provide more informed income budgets for the 2017/18 budget based on approved fees and charges.

8.6.3 The Council approved a fees and charges policy in December 2014 to inform future budget setting processes and to provide a framework for the setting of fees annually. The majority of fees that are set locally as per the policy are subject to annual increases of RPI plus 2%. The report is also recommending

8.6.4 A number of the fees for 2017/18 have been subject to a more detailed review for future years namely the market fees and charges which have been subject to a separate report to the Economic Development Committee in November 2016.

8.6.5 These and further savings proposals to be agreed as part of the budget processes will help to reduce the forecast funding gap, table 13 provides an estimate of the overall position after allowing for these.

8.6.6

Table 13 - Updated Financial Forecast	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**
Forecast Budget Gap (Table 12)	695	655	1,490
Savings and Income targets	(184)	(316)	(389)
Grand Total	**511**	**339**	**1,101**

8.6.7 In summary the current forecasts indicate a budget gap of just over £500k for 2017/18, increasing to £1.1million by 2019/20, the final year of the four year settlement. This is prior to the detailed work on the budget for 2017/18 being completed which is currently in progress to be presented to Members in February as part of the approval process which will update these forecasts. 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.

9.2 The legal requirement to set an balanced budget each year, ensures care is taken in preparing figures 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 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. Therefore 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. The base budgets allow for a turnover element from staffing costs which equate to approximately 1% 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.

9.6 **New Homes Growth/Increase in Tax Base** – The current budget and projections include the NHB allocation. 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. The national risk around the future of the NHB is more significant should there be a change in the allocation method, removal of the scheme or change to the 80/20 District/County current split.

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; however the future funding gaps still remain a risk. The future forecasts will assume the removal of RSG in full from 2020/21 which will mean a reduction of over £2 million in funding from 2019/20 to 2020/21.

Table 13 – Revenue Support Grant allocation

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	3,740	3,007	2,545	2,029

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 2017/18 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.

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 2017/18 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 2017. 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 a greater 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. There are still a number of significant appeals outstanding in particular purpose built medical centres and GP surgeries, NHS trust properties and power stations. Some of these will date back to 2005 for which refunds could be payable. 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 safety net 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. In addition, the review of the Business Rates system will be used to inform the budget for 2016, the impact of this will need to be considered once further detail is announced.

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 EMT 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 and car park income. 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 2016/17 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 2017/18. 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 **Service Delivery Changes** – The Financial Strategy reflects known service delivery changes including the centralisation of the Land Charges service from 2017 to the Land Registry. Further service delivery changes, for example the roll out of universal credits, are currently underway and any implications of these changes will be accounted for in future budget updates.

9.11.9 **Autumn Statement -** The government will publish its Autumn Statement on 23 November 2016 and will inform the budget from 2017/18 onwards.

9.11.10 **HRA –** Pay to Stay and Higher Value – The implications of these are not yet known and until further information and guidance around these and timescales are known the full impact to the HRA cannot be quantified.

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

Appendix A - Reserves Statement

	Closing Balance 31.03.16	Movement 2016-17	Closing Balance 31.03.17	Movement 2017-18	Closing Balance 31.03.18	Movement 2018-19	Closing Balance 31.03.19	Movement 2019-20	Closing Balance 31.03.20
General Fund:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Planning Delivery Grant	62	(43)	19		19		19		19
Insurance Fund	132	0	132		132		132		132
Town Centre Initiative	595	(173)	422		422		422		422
SHARP Funding	494	0	494		494		494		494
Restricted use grant	903	(182)	721		721		721		721
Efficiency Support grant	241	(241)	0		0		0		0
Invest to Save	1,000	(47)	953		953		953		953
Specific budget	63	(7)	56		56		56		56
LEGI	524	0	524		524		524		524
Repairs and maintenance	343	(16)	327		327		327		327
Second Homes Council tax	97	(77)	20		20		20		20
Waste Management	135	(110)	25	(11)	14		14		14
Collection Fund - Safety Net	1,197	(364)	833		833		833		833
Neighbourhoods	129	0	129		129		129		129
Other Reserves	208	(135)	72	(4)	68	(4)	64	(4)	60
Total Earmarked Reserves	**6,123**	**(1,396)**	**4,727**	**(15)**	**4,712**	**(4)**	**4,708**	**(4)**	**4,704**
General Fund	6,350	(176)	6,174		6,174		6,174		6,174
Total Reserves	**12,473**	**(1,572)**	**10,901**	**(15)**	**10,886**	**(4)**	**10,882**	**(4)**	**10,878**