STROUD DISTRICT COUNCIL

STRATEGY AND RESOURCES COMMITTEE

12 OCTOBER 2017

AGENDA ITEM NO

9b

Report Title	**BUDGET STRATEGY 2018/19 TO 2021/22**
Purpose of Report	To inform members of the Council's current financial position and the outlook over the medium term. To set out the strategy for managing the financial challenges facing the council in future years.
Decision(s)	**The Committee RESOLVES to:** **(1) Approve the Budget Strategy 2018/19 to 2021/22 as set out in this report** **(2) To amend the Capital Programme in respect to the 4 schemes set out in para 3.25, as reported to Community Services and Licensing Committee and Environment Committee in September 2017.**
Consultation and Feedback	Formal budget consultation is currently taking place in the form of a telephone survey of local council tax and business rate payers. The results will inform the 2018/19 budget setting process.
Financial Implications and Risk Assessment	This reports sets out the approach that will be taken when setting the budget for 2018/19 and an updated Medium Term Financial Plan. There are no financial implications arising directly from this report, but it does highlight the financial pressures facing the Council over the medium term, and the measures that have been taken to mitigate the impact of reduced government support. The report provides members with an update on the savings plan and the core deficit position. Significant progress has been made to date in reducing the reliance on utilisation of reserves to balance the budget. However, the Council will need to continue with its work of identifying budget savings or ways to increase income, given the level of uncertainty and lack of clarity on local government finances beyond 2019/20. Should the Council not plan it finances over the medium term, it risks committing funds in the short term that would cause financial instability in future years. David Stanley – Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk

Legal Implications	This report needs to be considered in the context of strategic risk associated with the budget; and the requirement for the Council to secure balanced budget etc. Karen Trickey, Legal Services Manager (Ref:rcd289) Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	David Stanley – Accountancy Manager (Section 151 Officer) Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Options	To review progress made to date with the Council's Savings Plan. Options on the level of Council Tax to be set will be considered in January 2018 with a recommendation to Council from Strategy and Resources committee. Rent levels for social housing are subject to a 1% rent reduction for a further 2 years, will be considered by Housing Committee in December 2017 with a recommendation for approval at the Council Budget Meeting in January 2018.
Performance Management Follow Up	The budget and savings proposals for the Housing Revenue Account and General Fund will be considered by Housing Committee in December 2017 and Strategy and Resources Committee in January 2018 respectively, with a recommendation for approval at the Council budget meeting in January 2018. The level of government funding from New Homes Bonus in particular is subject to confirmation in the Provisional Local Government Finance Settlement due in December 2017. The MTFP/Budget report to Strategy and Resources committee in January 2018 will provide an updated view on the council's level of funding over the medium term plan period.
Background Papers/ Appendices	Appendix A – Medium Term Financial Plan 2018/19 to 2021/22

1. INTRODUCTION / BACKGROUND

1.1 This report will inform Members of the current financial position as set out in the Council's General Fund Medium Term Financial Plan (MTFP), which is shown in Appendix A. The report will propose a strategy for tackling the core budget deficit highlighted in the MTFP and model the options available to Council regarding the level of council tax for 2018/19.

1.2 The Council's Constitution sets out the process for the budget-setting framework. The Council's General Fund and Housing Revenue Account (HRA) budgets for 2018/19, including the budget proposals of the administration, will be presented to full Council at their meeting on 25 January 2018

2. General Fund Budget Strategy and Medium Term Financial Plan
Local Government Funding

2.1 Local Government continues to operate in a climate of financial uncertainty and volatility. Whilst some degree of certainty has been afforded through the multi-year settlement, which runs until 2019/20, considerable uncertainty remains around funding streams that are outside of the multi-year settlement.

2.2 For Stroud in particular, the loss of Revenue Support Grant (RSG) from 2018/19 and the likelihood of a tariff adjustment of £549k in 2019/20 affords little financial comfort. The tariff payment (which can be viewed as negative RSG) means that the Council will have to pay the Government this sum from its other resources, namely Council Tax and locally retained Business Rates receipts. Stroud will be the first council in Gloucestershire to lose all government Revenue Support Grant (RSG) and will pay more money to government than other councils in Gloucestershire (Cheltenham will pay £391k and Cotswold will pay £218k. The other three districts - Gloucester, Tewkesbury and Forest of Dean will continue to receive small amounts of RSG).

Table 1 – RSG payments to Gloucestershire Districts 2016/17 to 2019/20

Revenue Support Grant / Tariff adjustments	2016/17 (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)
Cheltenham	1,273	544	102	(391)
Cotswold	856	386	101	(218)
Forest of Dean	1,247	721	393	26
Gloucester	1,856	1,093	617	85
Stroud	1,053	347	0	(549)
Tewkesbury	887	515	283	23
TOTAL	**7,173**	**3,606**	**1,496**	**(1,024)**

2.3 There remains some uncertainty as to when 100% Business Rates Retention will be fully introduced. The legislation that would have facilitated the introduction was not included in the Queen's Speech following the May 2017 General Election. The terms have yet to be fully determined, but the Government have indicated that this will involve transfer of responsibilities and functions previously delivered by central government and the ending of certain specific grants.

2.4 The Gloucestershire Business Rate Pool was reconstituted in April 2016 when Tewkesbury left the pool, and has continued in this form for 2017/18. Initial indications are that the pool will be in surplus in 2017/18 as a result of a more stable position and a lower levy rate for the pool following the 2017 Revaluation. However, the Valuation Office Agency have yet to provide detailed analysis of the appeals made to date against the new rating list, so there is a degree of caution in the initial estimates of a pool surplus. An updated position is currently being reviewed by pool members.

2.5 Forecasting the level of business rates income is extremely complex, mainly due to the timescale for delivery of business rate growth can be protracted, and predicting the level and extent of business rates losses due to appeals and closures is difficult. On this basis, the level of business rates income modelled in the MTFP has tended to be flat and only incorporate the inflationary increase in the business rates multiplier. A further complication arises around the government's late announcement of additional support to businesses in the form of discretionary rate reliefs. Whilst these are generally fully-funded through a Section 31 Grant (as the relief reduces the level of business rates income), it adds further complexity to any estimation.

2.6 Agenda Item 9c provides members with some information concerning 100% Business Rates Pilots. The Government published a prospectus in September 2017 - "Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models."

2.7 This document invites local authorities to submit an application by 27th October 2017 to government to become a 100% Rates Retention Pilot for 2018/19. There are both financial risks and benefits involved with operating a business rate pilot, which is discussed in more detail in the report. For the purposes of the MTFP, no change has been made to the level of business rates retained by the authority and remains at the level advised in the MTFP considered by Council at their meeting in February 2017.

2.8 The Government amended the New Homes Bonus incentive as part of the 2017/18 Local Government Finance settlement.

- Incentive payments were reduced from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19
- No NHB payments are made to a local authority for housing growth of less than 0.4%. This means that an authority only gets rewarded for growth exceeding this baseline.
- From 2018/19, the Government intends no longer to pay authorities that it considers do not support housing growth, the bonus will not be paid on new homes built which arise following a successful planning appeal. They will keep under review whether a council is required to have an approved Local Plan to gain NHB funding.

2.9 The MTFP assumes that the Council will continue to receive an incentive payment based on average delivery of new homes in previous years, and no further changes to the scheme. This is shown in Table 2a below.

Table 2a – NHB Forecast 2017/18 to 2021/22

	New Homes Bonus Estimates				
New Homes Bonus	**2017/18 (£'000)**	**2018/19 (£'000)**	**2019/20 (£'000)**	**2020/21 (£'000)**	**2021/22 (£'000)**
2012/13	404				
2013/14	476				
2014/15	667	667			
2015/16	933	933	933	0	
2016/17	238	238	238	238	0
Future years		200	400	600	800
TOTAL New Homes Bonus	**2,718**	**2,038**	**1,571**	**838**	**800**

2.10 At the time of writing, there is a clear indication that the NHB incentive will be amended, but it remains unclear as to the extent of the financial impact in 2018/19 and over the medium term. As part of the technical consultation on the Local Government Finance Settlement published in September 2017, the government set out 2 key considerations around the design of the NHB scheme for 2018/19:

- Reference to the national baseline figure being reviewed
- Proposals around how NHB payments in forthcoming years will be adjusted to take into account homes built after planning refusal by the local authority, with a subsequent successful appeal to the planning inspectorate.

2.11 It is useful for members to understand the potential impact such a change may have on the Council's financial position, which is shown in Table 2b below:

Table 2b – NHB scenarios 2017/18 to 2021/22

	New Homes Bonus Scenario Est.				
Sensitvity analysis NHB	**2017/18 (£'000)**	**2018/19 (£'000)**	**2019/20 (£'000)**	**2020/21 (£'000)**	**2021/22 (£'000)**
Scenario 1	2,718	2,030	1,555	814	768
Scenario 2	2,718	1,998	1,491	718	640
Scenario 3	2,718	1,878	1,251	358	160
Scenario 4	2,718	1,873	1,241	343	140
Scenario 5	2,718	1,838	1,171	238	0

- Scenario 1 – As per current MTFP projections, less 4% appeals loss
- Scenario 2 – Baseline 0.40%, 4% appeals loss
- Scenario 3 – Baseline 0.60%, 4% appeals loss
- Scenario 4 – Baseline 0.85%, 4% appeals loss
- Scenario 5 – No new NHB payments in 2018/19 and subsequent years.

2.12 The scenarios in the table above assumes delivery of new homes remains at a similar level to previous years. The potential impact of these scenarios would see a modest increase in the core deficit (Scenarios 1 and 2) of around £160k by 2021/22, with a much more significant impact on the core deficit (Scenarios 3, 4 and 5) of £800k by 2021/22.

2.13 The government will publish the draft NHB allocations in December 2017 alongside the finance settlement, with the January 2018 MTFP/budget report providing members with a more significant update on this important funding stream. In 2017/18, NHB provided 43% of Stroud's funding from Government, and 18% of the total funding including Council Tax.

3. Budget Assumptions

<u>Government Funding</u>

3.1 The table below shows the level of Government funding assumed in the MTFP described in the previous section, and reflects the amounts included in the Multi-Year settlement (2018/19 to 2019/20 only) that Stroud accepted in October 2016.

Table 3 – Government Support 2017/18 to 2021/22

Government Funding	2017/18 (£'000)	2018/19 Forecast (£'000)	2019/20 Forecast (£'000)	2020/21 Forecast (£'000)	2020/21 Forecast (£'000)
Business Rates Funding Baseline **	2,307	2,381	2,466	2,540	2,590
Business Rates - s31 grant etc	837	905	934	967	987
Revenue Support Grant **	347	0	0	0	0
Tariff/Top-Up adjustment **	0	0	(549)	(549)	(549)
Subtotal	**3,490**	**3,286**	**2,851**	**2,958**	**3,028**
Transition Grant **	103	0	0	0	0
New Homes Bonus Allocations	2,718	2,038	1,571	838	800
Total Government Funding	**6,311**	**5,324**	**4,422**	**3,796**	**3,828**
** Four-year funding settlement	2,756	2,381	1,916		

3.2 The table clearly shows the extent of the reduction in funding and the cessation of Revenue Support Grant from 2017/18. The Tariff/Top-up adjustment of £0.549m represents a payment to Government from Stroud's other resources. The level of funding for 2020/21 and beyond is extremely difficult to predict at this stage as no figures have been provided beyond the multi-year settlement period.

3.3 There is potential for business rates growth over the medium term, as discussed in the previous section, but the forecast here only assumes an inflation increase. The impact of 100% business rates retention has not been considered in these forecasts.

3.4 As discussed earlier, the level of NHB payments will be subject to changes, both in terms of the government's current consultation and in terms of the updated delivery figures due in October 2017.

<u>Council Tax</u>

3.5 In previous years, the Government permitted those councils with council tax levels in the lower quartile to increase their council tax by £5 or up to 2%, whichever was greater. This was extended to all district councils in the February 2016 and was continued for 2017/18. The Government is currently consulting on the 2018/19 Local Government Finance Settlement and is proposing that these arrangements continue for 2017/18.

3.6 The Government also built this source of revenue into the spending power totals for councils over the multi-year settlement period 2016/17 to 2019/20 and so the presumption is that this opportunity to raise council tax will be taken advantage of.

3.7 For the purposes of this report, an annual increase of £5 in council tax has been assumed over the medium term plan period, as included in the February 2017 MTFP approved by Council. The decision to increase Council Tax remains an annual decision for members to take in February 2018.

Pay and Price Inflation

3.8 The budget will be prepared on a 'standstill' basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such a contracts and software licence agreements. The impact on the MTFP will be reviewed following the publication of the September CPI and RPI figures given their current rates (CPI at 2.9% and RPI at 3.9% in August 2017). Pay inflation at 1% for 2018/19 and future years has been included in the MTFP.

3.9 The Government's recent relaxation on the public sector pay gap may add further pressure to the Council's finances should negotiations on the national pay award be higher than in recent years as a result. The unions have suggested a 5% pay increase for all pay scales and the adoption of the Living Wage Foundation rate. Any negotiations on the proposal is linked to the ongoing national pay review.

3.10 There remains some uncertainty around the potential impact of the Local Government Pay Review, which is due to report later in the year. This may lead to additional wage pressures.

Local Government Pension Scheme

3.11 An actuarial review of the Local Government Pension Scheme was undertaken during 2016/17. Provision was made in the MTFP for further increases to the employer's contribution to the Fund up to the next actuarial review due in 2019/20. The MTFP assumes a continuation in contribution levels consistent with the 2016 Actuarial review. Any change to the current level of funding will need to be included in the January 2018 MTFP update.

3.12 The 2016 actuarial review introduced a new employer's contribution of 18% from 13.7%. Also, revised annual lump sum payments. The Council has negotiated a reduced payment in return for paying the three year liability during 2017-18. The reduced payment will be chargeable to the MTFP as follows, 2017-18 £1.995m, 2018-19 £2.27m and 2019-20 £2.23m.

Interest Rates & Investment Income

3.13 The Bank of England base rate was cut from 0.5% to 0.25% in August 2016 due to concerns around the economy in light of the referendum decision to leave the EU. The base rate was held at this level at the Monetary Policy Committee meeting in September 2017, although there are indications from the Bank of England that a moderate rate rise is more likely in the very near short-term given the concerns around the level of inflation and the current state of the UK economy. The Governor of the

Bank of England, Mark Carney, has suggested that this increase may come as soon as November at the next MPC meeting.

3.14 The latest forecasts from our Treasury advisors (July 2017) suggest a moderate increase in interest rates over the next 3 years. These forecasts are due to be updated in November 2017 following the Bank of England's monetary policy committee meeting on 6th November.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

3.15 Another issue that is likely to effect on the level of income the council is able to earn on its investments is the impact of MiFID II (Market in Financial Instruments Directive II). These are European regulations that come into force in January 2018. Under this new regime, Local Authorities are categorised as de-facto "Retail" clients, but have the option to opt up to "Elective Professional Client" status. There are several criteria that must be met to be able to opt up, with the key one being to have a total investment portfolio of over £10m. A reclassification to "retail' will limit both the financial instruments and counterparties that local authorities can access, which will reduce the potential for investment returns.

3.16 The finance team, with support from our Treasury advisors and CIPFA/LGA are working through process required to 'opt-up' with relevant counterparties to ensure investment income can be maximised with reference to the overriding Treasury Management objective of Security, Liquidity and Yield (SLY).

3.17 Therefore, the outlook for investment income is significantly weaker in the short and medium term. The MTFP has not been updated to reflect this latest position given the uncertainty on interest rates and the impact of MiFID II.

Borrowing and Minimum Revenue Provision (MRP)

3.18 The total borrowing incurred for the HRA is £102.749m, an increase of £10.762m on the initial £91.717m borrowing drawn down for HRA self-financing. All the debt is at fixed rates and so there will be no fluctuations in interest payments over the medium term. There may be opportunities to re- schedule the debt to take advantage of discounts and this will be kept under review. The HRA is at the government's debt cap limit, and so under current regulations no further borrowing is permitted. Only periodic repayment of existing debt would create the scope for any future borrowing by the HRA

3.19 General Fund borrowing of £8.978m has been undertaken to support the Council's capital programme, particularly around the Depot and vehicle acquisitions for the new Multi-Service Contract. Unlike the HRA, the GF is required to make prudent provision for the repayment of debt in the form of MRP. The Council's latest approved capital programme for the period 2017/18 to 2020/21 contains a further £12.6m of borrowing, with a £2m conditional loan from the HCA in respect of the Brimscombe Port regeneration scheme.

3.20 Of the total £111.457m borrowing, the Council is currently borrowing £4.740m internally as a more cost-effective means of borrowing in the short term. (Risk with rates rising – benefit less and cost of borrowing higher)

3.21 As there is now General Fund borrowing which is scheduled to increase, an annual MRP payment is required to set-aside funds for the repayment of that debt. The low level of capital expenditure in the current financial year will have an impact on financing decisions. The Capital Programme and financing statement, along with estimates of MRP, will be reviewed and presented to committee in January 2018.

Fees & Charges

3.22 Previous guidance on fees and charges, endorsed by a Council decision in 2010, is that wherever possible fee should be increased by 2% unless they are set by statute or to do so would have a detrimental impact on the use of the service. Although the council is not increasing budgets generally by inflation, we are absorbing inflationary increases year on year as part of our drive for budget and efficiency savings. Any contribution that can be made to fund the increasing costs is essential.

3.23 The current level of the core deficit suggests that fees and charges should be reviewed annually with a move away from the guidance of a 2% increase, and more towards full cost-recovery where statute allows.

Capital Financing

3.24 With the revenue resources available, there are opportunities for some capital investment without the need to borrow. Given the long-term commitment that borrowing creates and the pressures the council faces on its revenue budget in the future, any decision to borrow must have regard to the longer term affordability and a return on the capital employed.

3.25 This report does not address any changes in the Council's Capital Programme, the spending profile, or the capital financing position. Members will be aware from reports to service committees that 3 schemes have already been subject to change in 2017/18.

- **Community Building Investment** – as reported Community Services and Licensing committee in September 2017, **a reduction of £0.130m in 2017/18** budget as the capital payment to Stroud Council was financed in 2016/17.
- **Ebley Mill Hydro** – as reported to Environment committee in June 2017, the project is technically feasible, there are land acquisition issues and only moderate returns on investment available within the available budget. Therefore, **this project is suspended with the £0.362m capital budget removed.**
- **Stroud Valleys Initiative** – as reported to Environment committee in June 2017, the modelling work undertaken by JBA indicated that interventions and remedial work on flooding would not release viable sites for development. Therefore, **the capital scheme will be discontinued and the £0.5m matched funding from the Council removed from the capital programme.**
- **Multi-Service Vehicle replacement programme** – As reported to Environment committee in June 2017, there is a need to purchase additional vehicles in 2017/18 over and above the £0.250m budget allocation. **Therefore, £0.084m of capital budget is to be brought forward from later years**. A full review of the fleet and vehicle replacement programme will need to be undertaken to ensure adequate resources are available.

3.26 In relation to the first 2 capital schemes listed above, there will not be a reallocation of budget to other schemes or consideration of new schemes. The capital financing supporting these schemes will be returned to the Capital Reserve to reduce the need to borrow in future years. A number of factors will need to be considered over the autumn to determine the most prudent approach to financing the capital programme. A revised Capital Programme and Financing Statement for 2018/19 to 2021/22 will be considered by Strategy and Resources committee in January 2018.

Significant Budget Pressures/Risks

3.27 The Multi Service Contract with Ubico commenced in July 2016 and members made a number of key decisions about the future delivery of the service, the acquisition of a depot facility and the sourcing of vehicles and other items.

3.28 Members will recall that an additional £2.9m was allocated to support the Ubico contract over the medium term plan period in during 2016/17 as a result of the additional cost of dealing with dry recycling material, income pressures on the Garden Waste Service, and the overall increase in service delivery costs.

3.29 Given the scale of the additional resource allocated to the Multi-Service contract, this is not a sustainable position of the longer term. Whilst the new Waste and Recycling service has significantly decreased the level of residual waste taken to landfill, the council will need to consider longer-term changes to the service as this continues to put significant pressure on the council's finances.

4. General Fund Medium Term Financial Plan

Balanced Budget requirement

4.1 The council is legally required to set a balanced budget for the following year. As reported to Council in the February 2017 MTFP, the council's core budget position is a deficit of £375k in 2017/18, rising to £3.497m in 2020/21. As has been previous policy the council will look to deploy its reserves over the coming years to ensure it maintains a balanced budget. This is set out in more detail under the reserves and balances section below. An important part of this strategy will be to continue to deliver efficiencies and savings over the coming years to slowly remove the dependency of the council on the utilisation of its reserves before they are depleted.

4.2 The Council's track record of delivering budget and efficiency savings has been good, and this needs to be sustained over the medium term. The table below provides members with an updated position regarding budget and efficiency savings

Table 4a – Savings Plan progress

Savings Plan	2017/18 (£'00	2018/19 (£'00	2019/20 (£'00	2020/21 (£'00	2021/22 (£'00
Reduced Car allowance rates - come into line with other councils		(65)	(65)	(65)	(65)
Ebley Mill rent income - new letting creates new income		(40)	(40)	(40)	(40)
Pension Prepayment - saves money in 2019/20			(232)		
Joint Use Sports Centres - return to schools saves money			(150)	(150)	(150)
Business Rates Pool - additional income		(100)	(100)	(100)	
Car Parks - increases charges at existing car parks		(150)	(200)	(250)	(300)
Car Parks - introduce charges in other towns			(100)	(110)	(120)
Kingshill House - transfer to community organisation			(20)	(20)	(20)
Pre-Application fees - increase charges		(20)	(20)	(20)	(20)
Env Health & Licensing fees - cost reductions and increased charges		(24)	(24)	(24)	(24)
Saving on countywide agency		(48)	(48)	(48)	(48)
Land Drainage - GCC contribution		(20)	(20)	(20)	(20)
Workforce Plan (Phases 1 and 2)	(250)	(550)	(800)	(800)	(800)
Savings target - asset transfers			(300)	(300)	(300)
TOTAL	**(250)**	**(1,017)**	**(2,119)**	**(1,947)**	**(1,907)**

4.3 The savings plan update shown in the table above starts to rebalance the council's finances and reduce the dependency on the utilisation of reserves to support the MTFP. In the February 2017 MTFP (included in the papers to set the Council Tax), the council was forecast to use £6m of balances over 3 years, with a core deficit of £3.4m by 2020/21 that couldn't be financed.

4.4 The effect of the savings plan on the MTFP can be seen in Table 4b below, with a significantly reduced reliance on reserves and a reduced core deficit across the MTFP period.

4.5 The savings plan shows a range of savings, budget reductions, income generation, and service cuts. In common with previous years, elements of the savings have already been achieved and will be removed from the council's General Fund budget accordingly. The final position on the savings plan for 2018/19 to 2021/22 will be reported to members in the January 2018 budget setting reports, with some of the figures being subject to change.

4.6 However, a proportion of the savings can be seen as 'savings targets' and will require regular review and reporting over the coming months to ensure the level of savings can be achieved. These include:

- Car Parks fees and charges
- Workforce Plan (Phase 2)
- Income from Business Rates pool/growth
- Savings from asset transfers

4.7 Strategy and Resources committee will receive updates on the performance against the savings targets as part of the regular budge monitoring reports. Should the level of savings indicated not materialise, it is expected that additional savings from services areas are brought forward and other mitigation is put in place.

4.8 Therefore, the budget strategy proposes to reduce service committee budgets accordingly for the medium term plan period based on the savings plan progress to date. Detailed revenue budget estimates for 2017/18 and 2018/19 will be reported to Strategy and Resources committee in January 2018.

4.9 The council will need to deliver further budget and efficiency savings over and above those already identified in the report in order to balance the budget over the medium term and in future years. Corporate Team have been working on a detailed savings plan that fully recognises the need to reduce costs or increase income to ensure the core deficit continues to reduce further in the latter years of the MTFP. These proposals will be developed over the coming months and only included in the MTFP when there is greater certainty on the timing and scale of saving that can be delivered.

4.10 Taking into account the 2016/17 outturn, the forecast funding position and the budget strategy outlined earlier, the updated General Fund MTFP for 2017/18 to 2021/22 is shown below (with further detail in Appendix A. The MTFP does include an updated position as a result of progress made with the Savings Plan

Table 4b – Summary MTFP

MTFP	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
TOTAL Funding	**15,052**	**14,158**	**13,616**	**13,352**	**13,758**
Net Service Expenditure	16,225	16,056	16,056	16,056	16,056
Corporate Items	(605)	(526)	(452)	(248)	(214)
Inflation and Pension costs	0	404	807	1,211	1,614
Additional budget pressures	0	0	0	0	0
Savings Plan	(275)	(1,187)	(2,289)	(2,117)	(2,077)
General Fund Budget	**15,345**	**14,747**	**14,122**	**14,902**	**15,380**
Core Surplus / (Deficit) before reserves	**(294)**	**(589)**	**(506)**	**(1,550)**	**(1,622)**
Utilisation of Reserves	294	589	506	1,550	1,622
Core Surplus / (Deficit)after use of reserves	**0**	**0**	**0**	**0**	**0**

4.11 Based on the information currently available and the assumptions made as set out in this report, the MTFP continues to show a growing core deficit, although at a much reduced level to that reported in February 2017. **However, given the concerns raised around the future of New Homes Bonus, and the general uncertainty around the level of government funding beyond 2019/20, some degree of caution should be exercised for 2020/21 and 2021/22 in particular**. The savings plan progress to date does not reduce the core deficit in full, but does reduce the reliance on utilisation of the £6m earmarked reserve funding set aside to support the MTFP.

Balances and Reserves

4.12 The Council periodically reviews its reserves. With the changing nature of local government finance, a comprehensive review was undertaken as part of the 2017/18 budget setting process to realign general fund balance and reserve levels to reflect the financial pressures, risks and priorities of the Council. This review, along with the statutory assessment by the S151 Officer, the need to hold a minimum level of general fund balances of £2m was advised as part of a risk based approach.

4.13 The strategy released the remaining general fund balances (£5.461m) to an earmarked reserve to support the Medium Term Financial Plan moving forward. A number of earmarked reserves were rationalised to provide a significant source of funding for the capital programme, with some reserves retained for specific purposes. Clearly, should these funds not be required for the purposes currently set out, they could become available in future years to support the general fund position.

4.14 At the time of writing, this strategy has not changed, but will be reviewed over the coming months and reported to Council in January 2018.

4.15 As a result of the improved 2016/17 outturn position, the Council's General Fund balances stood at £2.169m on 1 April 2017. This sum includes approved carry forward budgets of £169k. Earmarked Reserves stood at £14.640m on 1 April 2017.

4.16 The table below shows the current forecast of the General Fund balance and Earmarked reserves.

Table 5 – Summary of Balances and Earmarked Reserves

Balances and Reserves	Projected 31/03/2017 (£'000)	Outturn 31/03/2017 (£'000)	Utilisation (£'000)
General Fund Balances	**7,461**	**8,169**	
GF Balance - hold for risk			2,000
GF Carry Forwards 2016/17			169
GF Balance - support MTFP			6,000
Earmarked Reserves	**8,284**	**8,640**	
ER - support capital programme			5,835
ER - other earmarked purpose			2,805

5. Housing Revenue Account (HRA)

5.1 In common with the General Fund, the Housing Revenue Account (HRA) faces financial pressures over the medium term plan period. HRA balances and reserves at the end of 2016/17 were relatively robust due to much lower levels of revenue and capital expenditure in the financial year (£5.213m in balances, £0.942m in earmarked reserves).

5.2 The HRA faces similar financial pressures – the potential impact from the national pay review, any increase in the local government pay award above the 1% budgeted for, and higher than expected inflationary increases on contracts.

5.3 The reduced level pf rental income over the next 2 years (due to the 3rd and 4th years of a 1% reduction in social rents) and the uncertainty around the government's longer term guidance on social rent setting beyond 2019/20 put pressure on the HRA's finances over the medium term.

5.4 A review of HRA budgets in underway and the proposed Budget and Rent Setting 2018/19 Report will be presented to Housing Committee in December, followed by Strategy and Resources Committee in January 2018.

5.5 Rents for both social and affordable rented dwellings are currently restricted to a 1% rent reduction, with April 2018 starting the third year of the four year rent reduction policy set out in the Welfare Reform and Work Act 2016.

5.6 The budget setting position will be used to update the MTFP position which will be included in the Budget Setting Report. It is not expected that a deficit will be identified over the MTFP period, and Members will not be presented with a savings plan for 2018/19. However, there are a number of significant risks and uncertainties which should be considered when considering the medium and long term position of the HRA. These include uncertainty over the national rent policy following the four year rent reduction, as well as the Higher Value Void Levy for which the detail has yet to be announced.

5.7 These uncertainties have yet to be provided for within the HRA's MTFP, and some level of provision will need to be recognised through reduced expenditure or setting aside funds in the short-term when the MTFP is fully updated in December 2017.

Appendix A – Medium Term Financial Plan

	GENERAL FUND MTFP	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
OB1(a)	Community Services and Licensing	3,701	3,701	3,701	3,701	3,701
OB1(b)	Environment	5,124	5,124	5,124	5,124	5,124
OB1(c)	Housing	562	562	562	562	562
OB1(d)	Strategy & Resources	6,104	6,104	6,104	6,104	6,104
OB1(e)	SSCs	565	565	565	565	565
OB1(f)	Prior-year Carry Forwards	169				
OB1	**Restated Service Revenue Expenditure**	**16,225**	**16,056**	**16,056**	**16,056**	**16,056**
	Corporate Items					
AB1(a)	Minimum Revenue Provision (MRP)	730	930	980	1,110	1,190
AB1(b)	Capital Charges	(1,213)	(1,213)	(1,213)	(1,213)	(1,213)
AB1(c)	IAS19 Retirement Benefits	(559)	(559)	(559)	(559)	(559)
AB1(d)	Net transfer to / from (-) Reserves	0	0	0	0	0
AB1(e)	General Fund Contingency	50	50	50	50	50
AB1(f)	Waste Management Contingency	400	200	100	50	0
AB1(g)	Drainage Board Levies	128	132	136	140	144
AB1(h)	Interest payable & similar charges	165	225	345	465	465
AB1(i)	Interest & investment income	(180)	(165)	(165)	(165)	(165)
AB1(j)	Feed-in-tariff Income	(27)	(27)	(27)	(27)	(27)
AB1(k)	Other income (Depot lease)	(100)	(100)	(100)	(100)	(100)
	Subtotal	**(605)**	**(526)**	**(452)**	**(248)**	**(214)**
AB1	**Adjusted Budget**	**15,620**	**15,530**	**15,604**	**15,808**	**15,842**
INF	**MTFP Adjustments**					
INF(a)	Non-Pay Inflation	0	100	200	300	400
INF(b)	Pay Inflation (1% increase)	0	100	200	300	400
P1(a)	Employers Pension Contributions	0	204	407	611	814
	Subtotal	**0**	**404**	**807**	**1,211**	**1,614**
	Adjusted MTFP position	**15,620**	**15,933**	**16,411**	**17,018**	**17,456**
P1	**Budget Proposals**					
P1(a)	Revenue proposals					
	Subtotal	**0**	**0**	**0**	**0**	**0**
S1	**Savings Plan**					
S1(a)	Littlecombe Business Units income	0	(120)	(120)	(120)	(120)
S1(b)	Spend consolidation	(25)	(50)	(50)	(50)	(50)
S1(c)	Savings Plan 2018/19	(250)	(1,017)	(2,119)	(1,947)	(1,907)
	Subtotal	**(275)**	**(1,187)**	**(2,289)**	**(2,117)**	**(2,077)**
	Proposed Net Revenue Budget	**15,345**	**14,747**	**14,122**	**14,902**	**15,380**

Appendix A – Medium Term Financial Plan

	GENERAL FUND MTFP	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
	Proposed Net Revenue Budget	**15,345**	**14,747**	**14,122**	**14,902**	**15,380**
F1	**Funded By:**					
F1(a)	Precept on Collection Fund	8,354	8,482	8,612	8,744	8,878
	£5 Council Tax increase assumed 2018/19 onwards		217	440	670	908
F1(e)	Business Rates Retention Funding	3,314	3,421	3,543	3,649	3,722
F1(f)	Revenue Support Grant	347	0	0	0	
F1(f)	Tariff/Top-Up adjustment	0	0	(549)	(549)	(549)
	Transition Grant + Other Grants	103	0	0	0	
F1(g)	New Homes Bonus	2,718	2,038	1,571	838	800
	Subtotal Government Funding	**6,482**	**5,459**	**4,564**	**3,937**	**3,973**
F1(h)	Council Tax Collection Fund surplus/-defic	177	0	0	0	0
F1(i)	NNDR Collection Fund surplus/-deficit	39	0	0	0	0
	TOTAL Funding	**15,052**	**14,158**	**13,616**	**13,352**	**13,758**
	Core Surplus / (Deficit) before reserves	**(294)**	**(589)**	**(506)**	**(1,550)**	**(1,622)**
	Utilisation of Reserves	294	589	506	1,550	1,622
	Surplus / (Deficit) after use of reserve	**0**	**0**	**0**	**0**	**0**
	GF Balance held for risk	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**