Email: committeeservices@horsham.gov.uk
Direct line: 01403 215465

Horsham District Council

Cabinet

Thursday 23rd July at 5.30pm
Conference Room, Parkside, Chart Way, Horsham

Councillors:		
	Ray Dawe	Leader
	Jonathan Chowen	Deputy Leader and Leisure and Culture
	Philip Circus	Housing and Public Protection
	Roy Cornell	Waste, Recycling and Cleansing
	Brian Donnelly	Finance and Assets
	Gordon Lindsay	Local Economy
	Kate Rowbottom	Community and Wellbeing
	Claire Vickers	Planning and Development

You are summoned to the meeting to transact the following business

Tom Crowley
Chief Executive

Agenda

		Page No.
1.	Apologies for absence	
2.	To approve as correct the minutes of the meeting of the Cabinet held on 4th June 2015 (attached)	1
3.	To receive any declarations of interest from Members of the Cabinet	
4.	To receive any announcements from the Leader, Cabinet Members or the Chief Executive	
5.	To receive questions from and provide answers to the public in relation to matters which in the opinion of the person presiding at the meeting are relevant to the business of the meeting	
6.	To consider the following reports:	
	a) Report of the Cabinet Member for Finance and Assets on a Property Investment Fund	5
	b) Report of the Director of Corporate Resources on the Medium Term Financial Strategy	13
7.	To consider any matters referred to Cabinet by the Scrutiny & Overview Committee - There are no matters currently outstanding for consideration	
8.	To consider matters of special urgency	

THE CABINET
4TH JUNE 2015

Present:	Councillors:	
	Ray Dawe	Leader
	Andrew Baldwin	Waste, Recycling and Cleansing
	Jonathan Chowen	Leisure and Culture
	Philip Circus	Housing and Public Protection
	Brian Donnelly	Finance and Assets
	Gordon Lindsay	Local Economy
	Kate Rowbottom	Community and Wellbeing
	Claire Vickers	Planning and Development

Also present: Councillors: John Blackall, Leonard Crosbie, Matthew French, Christian Mitchell

EX/1 **RECORD OF THE MEETING OF 26TH MARCH 2015**

The record of the meeting of the Cabinet held on 26th March 2015 was approved as correct and signed by the Leader.

EX/2 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

EX/3 **ANNOUNCEMENTS**

The Chief Executive advised Cabinet that the Council's move from the North Street campus to Parkside had been completed on Monday 1st June. Feedback so far from officers and Members was generally positive.

The Cabinet Member for Leisure and Culture reported that Dinosaur Island at Southwater Country Park was now operational, although some areas had yet to be completed, and that it was proving to very popular. The official opening would take place on 11th July 2015.

EX/4 **PUBLIC QUESTIONS**

No questions had been received.

REPORT BY THE DIRECTOR OF CORPORATE RESOURCES

EX/5 **Provisional Outturn for 2014/15**

The Director of Corporate Resources submitted a report summarising the Council's financial performance for 2014/15.

The Council had achieved income in excess of budget from fees and charges

EX/5 Provisional Outturn for 2014/15 (cont.)

amounting to £366,000 during the year. At the time the report was written, other departmental net spending had resulted in a total underspend against budget of £545,000 for the year, making a total forecast underspend of £911,000 against budget. However, the underspend had now been reduced by approximately £100,000 due to the late receipt of a bill for the pension fund. These favourable variances had led to an increase in the Council's revenue reserves. It was noted that these figures were still in draft and the finance team would continue to work on closing the accounts for the year until the end of June.

The report summarised the main variances between the provisional final outturn and that predicted at the end of Quarter 3. Areas of overspend highlighted by the Director of Corporate Resources included the Capitol Theatre and appeal costs. It was also noted that staffing costs were underspent during the year, largely as a result of the transition to the new management structure, and that agency staff costs were higher than forecast. The main areas of increased income were also reported.

The Capital programme spend in 2014/15 was £5,200,000 against a revised budget of £12,800,000. The unused budgets for capital schemes in progress totalling £7,200,000 would be carried forward to 2015/16.

The outturn in respect of business rates was close to that which had been predicted. However, there had been a large increase in the number of appeals against valuations lodged before the 31st March 2015 deadline and it was therefore considered prudent to increase the provision for refunds on backdated appeals.

The final cost of the Office Move Project would be included in the Quarter 1 monitoring report and it was anticipated that it would be delivered within the allocated budget.

Members commented on a number of issues including appeal costs, business rates and the prospect of continued reductions in central Government funding of local authority expenditure.

RESOLVED

That the report be noted.

REASON

Monitoring of the Council's budget is essential, so that action can be taken to safeguard the Council's financial position if required.

EX/6 **SCRUTINY & OVERVIEW COMMITTEE – MATTERS REFERRED TO CABINET**

There were no matters currently outstanding for consideration.

EX/7 **MATTERS OF SPECIAL URGENCY**

There were no matters of special urgency to be considered.

The meeting closed at 6.07pm having commenced at 5.30 pm.

LEADER

Report to Cabinet

23rd July 2015

By the Cabinet Member for Finance and Assets

DECISION REQUIRED
Key decision

Horsham District Council

Not exempt

Property Investment Fund

Executive Summary

The Authority has an existing investment property portfolio which is valued at approximately £30m and produces an income of £2.5m which contributes to Council revenue streams.

With expected pressure on local authority incomes and the need to continue to support local services, it is important for the Authority to explore ways to increase revenues and the expansion of the investment property portfolio has been identified as one such opportunity.

By increasing our investment in property, which can deliver high yields, the council's income will increase. However, there is risk associated with further property investment as the value of assets can also go down. Risk will be managed by careful asset selection which will be directed at lower risk investments.

It is recommended that £5m be allocated for investment in commercial property, with decision making on investments made by the Cabinet Member for Finance and Assets, under existing delegated authority, following consultation with members of the Property Investment Advisory Group (PIAG).

Recommendations

Recommendations are as follows:

(a) To recommend to Council that a supplementary capital estimate of £5m for the expansion of the Council's existing property investment portfolio be approved. It is anticipated that purchases will normally achieve a 6% income return. Risk will be managed by careful stock selection and a focus on property within or near Horsham District.

Reasons for Recommendation

(a) To allow the expansion of the Council's property portfolio in order to increase the contribution that these assets make to Council revenues.

Background Papers

None

Consultation
Wards affected: All
Contact: Brian Elliott

Background Information

1 Introduction

1.1 This report recommends that the Council adopt a policy to expand the existing property investment portfolio in order to generate additional income, which will contribute to the Council's revenue streams.

2.0 Background

2.1 The existing portfolio comprises approximately £80m of operational property, which includes a housing portfolio valued at c£9m. This portfolio is utilised by the Council to deliver services to the community. In addition, the Council owns an investment portfolio, which is valued at approximately £30m, which generates a financial return for the Council.

2.2 The investment portfolio provides a net rental income of c£2.5m (YE2015), which is a gross initial yield of c8% on valuation. The portfolio is an important source of Council revenue.

2.3 Pressure from Central Government on Local Government finances means the Council is projecting a financial shortfall in the near term. To bridge that funding gap and to maintain a high quality of public services, it is necessary for the Council to continue along the path of reducing its cost base and seeking new revenue opportunities.

2.4 One such revenue opportunity would be to increase the size of the Council's investment property portfolio by buying income-producing assets.

3 Statutory and Policy Background

Statutory background

3.1 Under section 12 of the Local Government Act 2003 a local authority has power to invest for any purpose relevant to its functions for the prudent management of its financial affairs.

Relevant Council policy

3.2 The Council is committed to increasing revenue streams to finance the provision of public services.

4 Property Investment Proposal

4.1 The purpose of this proposal is to recommend the allocation of funds for the acquisition of investment property, with the objective of growing the existing portfolio and thus increasing the contribution of property to Council revenues.

4.2 The existing investment portfolio comprises offices, retail and industrial properties, all of which are located within Horsham District. Table 1 below shows the net income from each sector and yield profile.

Sector	Value £m's	Income £m's	Yield %
Industrial	8.45	0.790	9.3
Offices	1.25	0.138	11.0
Retail (units shops)	8.56	0.737	8.6
Shopping centre	4.52	0.351	7.7
Medical centres	5.86	0.460	7.8
Other	2.01	0.048	2.3
Total	30.65	2.525	8.2

Table 1 – structure of portfolio by use

4.3 Tenant quality ranges from established national businesses to local start-ups. The vacancy ratio is low (1.13%; 2015), which reflects the quality of the portfolio and the strength of the local economy.

4.4 The investment portfolio is not reversionary, in other words, it is let at current market rental levels.

4.5 At a national level, the outlook for property is positive. The industry benefits when the economy is strong and occupier demand has strengthened over the last two years, which is reducing vacancy rates. Outside of Central London, market forecasts are now projecting increases in rental levels over the next few years of 3% pa[1]. Strong demand by investors and low interest rates has applied downward pressure on yields particularly in prime markets. Over the last year, performance has been driven by yield compression owing to the low interest rate environment: Future performance is more likely to be driven by rental growth.

4.6 Like all investments, property has risks factors. It also has liquidity issues, as property takes time to sell and has high transaction costs, which are often around 5.5%, depending on the size of the transaction. Traditional risks associated with property include change in demand, tenant default and obsolescence.

4.7 Risk factors are considered when making a purchase decision and are reflected in valuations. It is expected that the Council would take a mid-range view of risk, which would exclude speculative property development. Individual properties will have different inherent risk profiles, which are balanced by having a diverse portfolio of many properties.

4.8 As an asset class, property is cyclical, with good returns often followed by poor returns. Factors that influence property returns are booms in development, which can flood the market and reduce demand; a surge in bank lending to fund property investment, which can create an asset bubble; the relationship between the long bond rate and property yields; and an overheated economy which is corrected by recession. These risk factors also impact on other asset classes.

4.9 The investment property market is competitive, which means that properties can go under offer very quickly. This is illustrated by the recent marketing of Springfield

[1] GVA Economic and Property Market Review May 2015

House, Horsham, a multi-let office building which was put on the market at a price of £2.7m, reflecting a net yield of 8.5% on an income of £240k. The vendor agreed terms to sell the building within two weeks of marketing, at above quoting figures. Therefore, for the Council to be able to compete effectively in the market, it would be necessary to use the delegated authority vested in the Cabinet Member for Finance and Assets, following consultation with the members of the Property Investment Advisory Group (PIAG). This would enable the Council to evaluate property opportunities and take the decision to purchase on a rapid, opportunistic basis.

5 Financial position in relation to increased property investment

5.1 The purchase of assets, whether for operational or investment purposes, is treated as capital expenditure under the legal rules which govern local government expenditure.

5.2 Purchases can be financed from borrowing, capital receipts, or revenue reserves where these are available. However, it is important to note that a subsequent sale of an asset generates a capital receipt, which can only be used for capital purposes.

5.3 Decisions for investing in property for the purposes of increasing our income portfolio will be evaluated assuming that the Council borrows to finance the purchase. This will ensure that revenue reserves and capital receipts will be first used to finance the Council’s operational assets. Although the primary purpose will be to increase our income, property investments can also provide increases in capital values over time, thus providing a capital return.

5.4 Borrowing generates a charge to the revenue account both to meet interest costs and to repay the capital cost over the anticipated life of the asset. Borrowing costs range from 2% for 5 years to 4% for 20 years. The charge to the revenue account for repayment of capital is known as Minimum Revenue Provision (MRP). MRP is likely to be around 2% and 4% pa dependent on the life of the building. The subsequent sale of the asset will provide a capital receipt in the future that will benefit the Council.

5.5 The financial benefit of increasing the Council’s exposure to investment property is that it will generate a higher income return; however the risk profile of the current investment strategy will change. To offset this, it is recommended that stock selection should be rigorous and focussed on properties that are within or near Horsham District, where there is good local knowledge. It is anticipated that the yield will normally achieve at least a 6% return. The Cabinet Member will be fully advised of the return and business case in each case.

5.6 If the investment property fails to deliver the revenue anticipated the purchase could result in increased revenue pressure. Likewise, if the property value decreases or becomes unsaleable the Council will be left without a return on its investment and loses liquidity of its cash. However, as the amounts involved are relatively low and the purchases will not be high risk, this is not considered to be a significant risk.

5.7 With regard to the amount to be allocated for investment, a prudent approach is recommended with funds to be allocated in tranches, with continual performance review to ensure that financial objectives are being achieved. It is proposed that tranches should be up to £5m. When a tranche has been fully invested, it is proposed that the decision to continue to invest and allocate more funds is revisited by Council. This ensures the Council is fully involved and aware of any risks before investing any more money.

5.8 There is a cost to ownership of commercial property, namely management costs and interest on borrowings. The Council has an existing estate management team and is able to absorb additional work arising from the first tranche. The cost of borrowing is a factor that will to be taken into account when making investment decisions.

6 Decision making

6.1 It is recommended that the Cabinet Member for Finance and Assets approves purchase recommendations following consultation with the members of PIAG. This will ensure that decision making can be undertaken within timeframes expected by the property market.

6.2 Property purchases will be subject to normal commercial due diligence, including the preparation of a purchase report by a leading firm of Chartered Surveyors and a satisfactory structural survey.

7 Outcome of Consultations

7.1 The Director of Corporate Resources comments are incorporated in this report

7.2 The Council Solicitor/Monitoring officer comments are incorporated in this report.

8 Other Courses of Action Considered but Rejected

8.1 The council could choose not to invest in a property portfolio however this will eliminate the possibility of generating additional income from this source.

8.2 The Council could choose not to allocate a capital budget for investment property and request future decisions come to Council, however, this will reduce the ability of the council to react quickly to market opportunities and to buy.

9 Recommendations

The following action is recommended:

To recommend to Council that a supplementary capital estimate of £5m for the expansion of the Council's existing property investment portfolio be approved.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal? Risk Assessment attached Yes/No	There are financial risks associated with the proposal the details of which are incorporated in the report
How will the proposal help to reduce Crime and Disorder?	NA
How will the proposal help to promote Human Rights?	NA
What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant	NA
How will the proposal help to promote Sustainability?	Sustainability will be a consideration when making purchasing decisions

Agenda Item 6(b)

Report to Cabinet

23th July 2015

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt

Medium Term Financial Strategy 2016/2019

Executive Summary

The review of the Financial Strategy, as part of the budget setting process, enables a balanced budget target to be established with a focus on an affordable level of Council Tax, delivery of the corporate priorities and policies of the Council and the continued enhancement of value for money and satisfaction with services for the residents of the District.

This report sets out the Council's review of its Financial Strategy for the period 2016/2019 to establish the context for the Council's budget and medium term financial planning scenarios and assumptions.

Recommendations

The Cabinet is recommended:

i) to note the projected budget gap detailed in paragraph 4.6 and undertake to bring forward strategies to deal with the projected deficit during the 2016/17 budget setting process.

Background Papers	Report to Cabinet, 29th January 2015, Budget 2015/16 and Medium Term Financial Strategy
Consultation	
Wards affected	All
Contact:	Katharine Eberhart, Ext: 5300

Background Information

1 Introduction

The purpose of this report

1.1 The Council's Medium Term Financial Strategy was last reviewed by Council on 25th February, 2015 as part of the annual budget setting cycle of the Council. The financial position for the Council was difficult to forecast due to the national election in May. The newly formed government in May announced its summer budget on the 8th of July so it seems timely to update the Cabinet on current projections.

1.2 This review ensures that the 2016/17 budget and resultant Council Tax level will be set within the context of the Council's emerging Corporate Plan priorities and the financial strategy in order to deliver a balanced budget, updated for the latest information and knowledge available to the Council.

2 Economic Outlook

2.1 The economic outlook since the Council last reviewed its financial position in February has become steadier and more certain. The coalition government was successful in delivering its target reduction in the deficit.

2.2 In the summer budget the Chancellor has not announced how the cuts will be made and we will need to wait until the autumn statement and the settlement announcement to understand the impact to our Council.

2.3 The Institute of Fiscal Studies estimates that the government needs to realise £30bn of savings in departmental spending after considering the election pledges to increase spending on the NHS. After considering areas that are likely to be protected the Institute believes that a further 15% cut over three years will fall to local government. This in addition to the 15% cuts already levied on government departments.

2.4 The Chancellor did outline how he intends to deliver the £12bn cut in welfare that was announced during the election campaign. These cuts will impact some of our residents and may create additional pressures on our benefit and housing services.

2.5 We will need to continue to monitor use of bed and breakfast accommodation and our temporary accommodation stock to ensure that we can meet the needs of our vulnerable residents with best quality and cost effective care.

2.6 The government's policies continue to show the desire to devolve functional and fiscal responsibility to local councils. The Chancellor gave greater powers for transportation and health to the Greater Manchester authorities and highlighted further groups of councils that are working towards agreed devolution powers.

2.7 Interestingly the Chancellor did not make reference to the funding of some of the government initiatives like New Homes Bonus (NHB) and funding for Local Enterprise Partnerships (LEPS) and we will need to wait until the autumn statement for further information.

2.8 The Chancellor did indicate that the target date for resolving the deficit is one year later than in past budget – 2019/20. This will help spread the pressure of finding savings.

2.9 The continued reduction of government spending is clear and local government is likely to continue to suffer steeper cuts than other government departments such as health and education, both of which remain protected services. How the further projected cuts will be levied and the impact of cuts on local councils is not known. The only certainty that the government gave to local government is holding the expenditure on public pay at 1%.

3 Financial Strategy Objectives

3.1 At the Council Meeting on the 25th of October 2012, the following financial objectives were agreed.

Table 1 – The Council's Financial Strategy Objectives

	Financial Strategy Objectives
1	To deliver services identified in the Council's District Plan.
2	To deliver a balanced budget.
3	To deliver business transformation efficiencies of £1.25m over the life of the strategy.
4	To optimise income opportunities.
5	To maintain an adequate level of reserves.
6	To provide strong financial services, systems and processes to deliver and support a balanced budget.
7	To remain within our borrowing limits defined in our Treasury Management Strategy.

3.2 The building of the budget for the Council needs to ensure that sufficient resources are allocated to services and projects to deliver the District Plan. The financial planning includes both revenue and capital expenditure.

3.3 Since the Financial Strategy Objectives were agreed by Council we have been successful in meeting our objectives. We have set out a balanced budget, provided strong financial controls, maintained an adequate level of reserves and remained within the our borrowing limits. Progress on the business transformation target savings and income opportunities is expanded on in the following paragraphs.

3.4 The delivering of the business transformation savings was phased over a number of years. As at the end of the 2014/15 year we have delivered £440k of the savings with another £100k for consolidation of customer services in the pipeline.

3.5 In addition we completed the office move in the past year. This project has improved our organisational effectiveness; we have improved our use of technology, reduced our reliance on paper and improved communication amongst staff. We will also realise a significant capital receipt from the sale of our buildings, to help finance our capital programme.

3.6 The relocation of office staff from Park House has created the potential to improve income from our property portfolio creating additional income opportunities by letting office space whilst the future of Park House is considered by councillors. The capital receipt will help improve our revenue forecast because we will not need to borrow for this element of the capital programme. The income generation from Park House and revenue benefit of the capital receipt will create a potential revenue benefit of approximately £500k.

3.7 By the end of 2015/16 we will have delivered around £1m of the original £1.25m target. During the last budget round we increased our remaining business transformation savings target from £250k to £1m reflecting future savings to be generated from our commissioning and transformational work programmes.

4 Budget Assumptions

4.1 Future budget projections are based on a number of assumptions including:

- i) Continuing reduction in government grant
- ii) Inflation including annual pay award
- iii) Appropriate minimum level of reserves of £6m
- iv) Provision for the Capital Programme

4.2 We can only estimate the impact of the government cuts on our grant at this point in time as we will not have certain information until the autumn or possibly the settlement announcement in December. The Chancellor did state that our cuts are unlikely to be as severe as at the beginning of the last spending review, it also generally considered that local government has dealt with the impact of reducing grant.

4.3 For the purposes of estimating our projected budgets, the MTFS assumes a reduction of 15% (as widely discussed by reviewing organisations) in its spending power over the next three years. The government's measurement of spending power includes its grant and NHB. This results in an annual reduction of about £400k. This size of reduction is similar to that which was assumed in the last forecast of the MTFS and is shown in our figures as a reduction of RSG. This assumption also holds the NHB at the 2015/16 for the next three years.

4.4 The following table compares the changes in budget assumptions from February 2013 to July 2013. Details of the budget assumptions and the reasons for the change in assumptions are explained in the following paragraphs.

Assumptions	February 2015 2016/17	2017/18	2018/16	July 2015 2016/17	2017/18	2018/19
Pay Award	2%	2%	2%	1%	1%	1%
Inflationary pressure	2%	2%	2%	1%	1%	1%
Pensions revaluation	£125k			£125k	£125k	£125k
Minimum level of reserves	£6m	£6m	£6m	£6m	£6m	£6m
Reduction in Government Grant	£400k	£400k	£400	£400k	£400k	£400k
Increase in Dwellings	850	850	850	850	850	850
Increase in Council Tax*	2%	2%	2%	0%	0%	0%

*the July assumption no longer assumes an increase in council tax – see 4.11 below

4.5 The projected pay award has been reduced to reflect the recent budget announcement. The adjustment to the pension contribution reflects recent advice from the actuary reflecting the returns on investments and the discount rate. The costs of the local government pension schemes were discussed in the budget, and alternatives for improving the return on investments and reduction in administration costs is being reviewed by government.

4.6 The impact of the changes is shown in the following two tables. The projected gap reported in January 2015 is shown in the first table and the current projection is shown in the second table:

January 2015	2016/17 £000	2017/18 £000	2018/19 £000
Net expenditure	13,560	14,201	14,619
Funded by			
New Homes Bonus	1,166	1,166	1,166
Council Tax	8,216	8,479	8,749
Government Grant			
RSG	1,121	721	421
Business Rates	1,862	1,862	1,862
Additional Business Rates	440	470	500
Payment to parishes	(57)	(37)	(22)
Total Funding	12,748	12,661	12,676
Net (Surplus)/Deficit	812	1,540	1,943
Business Transformation Savings	(400)	(1,000)	(1,000)
Deficit after BTP Savings	412	540	943

July 2015	2016/17 £000	2017/18 £000	2018/19 £000
Net expenditure	13,772	14,278	14,908
Funded by	0	0	0
New Homes Bonus	1,166	1,166	1,166
Council Tax	8,066	8,173	8,280
Government Grant	1,121	721	421
RSG	1,862	1,862	1,862
Business Rates	440	470	500
Additional Business Rates	-57	-37	-22
Payment to parishes	0	0	0
Total Funding	12,598	12,355	12,207
Net Deficit	1,174	1,923	2,701
Business Transformation Savings	(400)	(1,000)	(1,000)
Deficit after BTP Savings	774	923	1,701

Localisation of Business Rates

4.7 Commencing in April 2013 a portion of the government grant we receive is now linked to business rates. The government has set a baseline of rates and if we receive more than the baseline, the Council gets to keep 50% of the increase. If the business rates collected is less than the baseline, the Council loses pound for pound down to the safety net of £135k.

4.8 The level of rates collected depends on a number of factors such as; demolitions, vacant properties, new properties, reductions in rateable value as a result of appeals and the level of arrears. This change in government policy increases both the risk and potential reward to the Council. Budgeting for appeals has depressed the potential income from business rates over the past two years. The deadline for back dated appeals was 31st of March 2015, therefore we are more confident of our business rate income for 2015/16 and as a result we have projected an additional £400k income from business rates. Any future growth in businesses will create additional income for the Council.

New Homes Bonus Scheme

4.9 New Homes Bonus has been a significant source of income for the council. Since 2013/14 the Council has used £1166k of the yearly NHB to support revenue expenditure. This assumption is carried on for the purposed of the MTFS. NHB is not ring-fenced and can be spent at the Council's discretion. The view of many local authorities is that there is a direct correlation between the drop in direct government grant and NHB and thus treating this as much the same funding is a legitimate way of funding expenditure. However, there have been previous references in Council and Cabinet to removing or partly removing this use of NHB as a revenue source as we consider the future finances of the Council.

4.10 On the assumption that the government continues to pay New Homes Bonus as a reward to increase housing growth the current MTFS projections treat NHB reserves like all revenue reserves and have been used to fund the capital programme until the reserves fall to the stipulated £6m reserve level.

4.11 Once the future of New Homes Bonus becomes clearer, the Council could chose to develop a policy for spending part or fully the NHB for projects other than funding the existing capital programme, however, the resulting increase in financing costs will then need to be considered.

Council Tax increases

4.12 Unlike the January projections, the current projection assumes no increase in council tax. Council tax has remained at the same level for six years. It is the lowest council tax in West Sussex and in the bottom quartile of all district councils.

4.13 There have been a number of adjustments to the projected expenditure not detailed above. The significant items of additional costs include the increase in the development management staffing structure of £98k and a projected reduction of our waste recycling grant of £300k. The waste recycling grant is currently under negotiation between West Sussex County Council and the Districts with an implementation date of April 2016.

5 Budget Challenge Process

5.1 Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, increased budget requirement to meet the priorities of the District Plan and sometimes where inflationary pressures; e.g. on fuel, are excessive.

5.2 For the purposes of this forecast we have assumed that any growth pressures must be met by offsetting reductions elsewhere.

5.3 The 2016/17 budget process will commence over the summer and will be finalised in January 2016. The emerging district plan will influence the priorities and will need to be reflected in budget priorities.

5.4 The budget process will be closely scrutinised to ensure that excessive budgeting is avoided and likewise adequate resourcing is provided to meet service delivery items.

6. Capital Programme

6.1 Funding for the capital programme can be provided from either capital or revenue income. In the first instance, capital expenditure will be funded through capital receipts. Capital receipts are realised from the sale of the Council's assets.

6.2 The balance of the capital programme is funded either through general reserves or borrowing. Historically much of the capital programme has been financed through capital receipts but in recent years more use of general reserves has been required.

6.3 The capital programme that is reflected in the revenue costs is the capital programme that was presented to Council as part of the 2015/16 budget setting exercise in February. The additional approved budgets for Hop Oast and the purchase of temporary accommodation at Bishopric have also been included

6.4 A significant project that the Council agreed to pursue in 2012 is the provision of a new leisure centre at Broadbridge Heath. Considerable work has been undertaken on this project to scope requirements, consider location and the potential for any sale proceeds from the land. A report will be presented to Council outlining options in the autumn. We are maintaining a neutral impact assumption but this will have to be revisited as part of the decision making on the new centre, dependent on what option is chosen. This is the same assumption that was used in January.

7 Business Transformation Programme

7.1 Following the completion of the Office Move the current Business Transformation Programme is being reviewed and a report will be presented to Cabinet in the autumn.

7.2 The future programme will build on the capabilities of the new website and customer contact centre as we continue to centralise our customer service interaction and improve the ability for our customers to interact with us digitally.

7.3 In addition we are reviewing how we process work to ensure we maximise the use of mobile technology, opportunities presented by utilising the cloud for data storage and streamlining our applications.

8 Reserves

8.1 The Council holds two types of reserves, earmarked reserves and general revenue reserves.

8.2 Earmarked reserves are funds received for a specific purpose. For example, grant funding that can only be expended on particular purposes. Details of the earmarked reserves held by the Council at 31st March 2015 are shown below.

Earmarked Reserves	£000s
Neighbourhood Planning Grant	318
S106 Reserves	1502
Insurance Reserve	36
Vehicle Replacement Reserve	73
NNDR Reserve	1435
Council Tax Localisation	259
Health and Wellbeing	256
Weekly Waste Collection	265
Community Reserves	333
Other	652

8.3 General reserves are reserves held to ensure that the Council has sufficient funds to deal with any emergency or uncertainty. The Council also uses its general fund reserves to fund capital expenditure, redundancy payments and one-off costs such as the up-front costs of business transformation.

8.4 The Council agreed in October 2012 on a minimum level of general reserves of £6 million. General reserves at 31st March 2015 were £9 million.

8.5 As stated earlier the current reserve projections assume that reserves in excess of £6m are used to fund the capital programme.

8.6 The following table shows the predicted level of general reserves for future years. The level of general reserves assume that we are able to resolve our deficit position and do not need to fund our shortfall from reserves. It also assumes that there is no increase in council tax and that NHB will be held at 2015/16 levels. It we fail to take appropriate action and resolve our deficit, our reserve levels will reduce significantly. Likewise if NHB continues in its current form our level of reserves will improve significantly.

	2015-16 000s	**2016-17** 000s	**2017-18** 000s	**2018-19** 000s
General Reserves	8,515	4,440	(1,582)	(1,583)
Potential New Homes Bonus	3,694	5,464	7,234	9,004
Potential total reserves	12,209	9,904	5,652	7,421

9. Potential Actions

9.1 The Council has a number of potential actions it could take to mitigate the deficit. It could choose to increase Council Tax, fees and charges. It could also consider ceasing the delivery of some services and further rationalising its property estates.

9.2 For example a 1% increase in council tax raises about £80k. If the Council raises council tax by 1% in 2016/17, 2017/18 and 2018/19 we will raise a cumulative total of £480k over the three years. A 2% rise in 2016/7 alone would also give a cumulative total of £480k over three years. It should be noted that government policy in the recent past has been to impose low percentage limits on any council's ability to increase council tax.

9.3 The council could choose to increase green waste charges. Increasing green waste cost by £6 in 2016/17 would raise additional income of £180k in one year or an additional £540k over the three years assuming a constant customer base of 30,000 homes.

Options	2016/17 £000s	2017/18 £000s	2018/19 £000s
1% year on year increase in CT	80	160	240
£6 increase in Green Waste in 2016/17	180	180	180
Total	260	340	420
Projected Deficit	775	992	1700
Revised Deficit	515	652	1280

9.4 Over the coming months the Cabinet will review options and develop proposals and bring the resulting recommendations to Council.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal? Risk Assessment attached Yes/No	There are no risks associated with the proposal.
How will the proposal help to reduce Crime and Disorder?	There will be no impact on Crime and Disorder.
How will the proposal help to promote Human Rights?	The will be no impact on Human Rights.
What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant	There is no impact on Equality and Diversity.
How will the proposal help to promote Sustainability?	There is no impact on sustainability.