

Report to Cabinet

26 January 2017

By the Cabinet Member for Finance and Assets

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

THE 2017/18 BUDGET AND THE MEDIUM TERM FINANCIAL STRATEGY to 2020/21

Executive Summary

This report sets out details of the proposed 2017/18 revenue and capital budgets. It also reviews the Medium Term Financial Strategy that was approved in November 2016 in light of the final 2017/18 budget and receipt of the Settlement. The Council is able to set a balanced budget for 2017/18, generating a small surplus which will help towards funding future transformation to maximise efficiency and effectiveness.

The 2016 Autumn Statement did little to change the government's policy of significantly reducing funding to local authorities in a bid to help reduce government debt. The pressure on Council finances remains as strong as ever. As the Council had already accepted the four year settlement in 2015/16, the settlement in December 2016 duly confirmed a 23.6% reduction in Settlement Funding Allocation in 2017/18 when compared to funding of £2.7m in 2016/17. Cumulatively, there will be a 62.3% reduction over the four year period by 2019/20.

The current budget estimate is for the Council to deliver a small surplus in 2018/19, breakeven in 2019/20 and have a deficit of £1.6m in 2020/21. These projections are significantly lower than forecast this time last year as a result of the work done on the 2017/18 budget and also by the Cabinet's November 2016 decision to approve alternate weekly collection from Spring 2018, which should generate savings of £1m per annum.

The Council plans to deliver savings and income generation through a combination of measures including; service and productivity reviews, shared services, procurement, income generation, and other efficiency measures. The current programme focuses on the period up to 2020, but this will help put the Council in good shape to also tackle the deficit in 2020/21.

The report sets out a series of prudential indicators that are a statutory requirement to demonstrate that the Council's capital programme is affordable, and prudent in the context of the Council's overall finances. The report also includes a statement on the robustness of reserves in Appendix I.

Recommendations

Cabinet is recommended to propose the following for consideration by Council on 15 February 2017:

- i) That the level of Council Tax for 2017/18 increases from £137.17 by 2.5% to £140.60 at Band D.
- (ii) That the net revenue budget for 2017/18 of £11.86m be approved (attached as Appendix A).
- (iii) That Special Expenses of £280,319 (attached as Appendix D) and a Band D charge of £24.40 be agreed in respect of the unparished area for 2017/18.
- (iv) That the capital programme for 2017/18 (attached as Appendix E) be approved and that the indicative capital budgets in the programme for future years be noted.
- (v) That the projected future deficit on the revenue account in 2020/21 is noted and the Medium Term Financial Strategy continues to be reviewed and refined to ensure that decisions are taken to develop a balanced budget in 2020/21.
- (vi) That the Minimum Revenue Provision (MRP) Statement set out in Appendix F be approved.
- (vii) That the prudential indicators and limits for 2016/17 to 2019/20 set out in Appendix G be approved.
- (viii) To note the statement on the robustness of the level reserves in Appendix I.

Reasons for Recommendations

To meet the Council's statutory requirement to approve the budget and the prudential indicators before the start of a new financial year.

Background Papers: Medium Term Financial Strategy 24 November 2016

Wards affected: All

Contact: Jane Eaton, Director of Corporate Resources x5300
Dominic Bradley, Head of Finance x5302

Background Information

1 Introduction and background

- 1.1 This report sets out the Council's budget requirement for 2017/18 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2016/17, future years' projected deficits and the impact of those deficits on reserves.
- 1.2 The local government finance system is becoming increasingly complex. The difficulty of predicting what factors such as interest rates, grant funding and energy costs will be in two to five years' time is further complicated by uncertainty regarding the financial impact of the Britain's exit from Europe, the government's welfare reform programme and future income from retained Business Rates. It is however fairly certain that the amount of money available to district councils will continue to reduce over the next three years.
- 1.3 The current budget estimate is for the Council to deliver a small surplus in 2018/19, breakeven in 2019/20 and have a deficit of £1.6m in 2020/21. These projections are significantly lower than forecast this time last year as a result of the work done on the 2017/18 budget and also by the Cabinet's November 2016 decision to approve alternate weekly collection from Spring 2018 which should generate savings of £1m per annum.
- 1.4 This review ensures that the 2017/18 budget and resultant Council Tax level will be set within the context of the Council's 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. The report also sets out the prudential indicators that are used to measure the affordability of the Council's capital programme.

2 Relevant Council policy

- 2.1 To deliver a balanced budget over the medium term.

3 Details

Strategic political, economic and regulatory outlook

- 3.1 The UK economic outlook has been affected by the June 2016 vote to leave the EU. Whilst the long term future impact remains uncertain it should be noted that interest rate forecasts have been updated based upon outcomes to date, including the reduction of the Bank of England base rate, the widening of the quantitative easing programme which saw additional bond releases and the reduction in the credit rating of UK banks by investment firms. Interest rates are at historically low levels with significant increases now not predicted within the three year period of this medium term financial strategy. The value of the pound has also decreased significantly; by 20% against the U.S. Dollar and by 15% against the Euro. Conversely, the FTSE 100 share index has risen by around 10% since the referendum to approach 7,000. Inflation has started to increase in recent months putting pressure on expenditure, measured in December 2016 at 1.6% under the Consumer Price Index (CPI) and 2.5% under the Retail Price Index (RPI). The impact from the cost of fuel is also slowly rising, which is also being affected by the decision of the Organisation of the Petroleum Exporting Countries (OPEC) to restrict oil barrel production.

- 3.2 Both the demand for the Council's services and its income streams are affected by the general economic health of the District, and the prevailing interest rate has a direct impact on interest receipts. Therefore the uncertainty of the economic and regulatory outlook adds risk to the setting of a precise financial strategy. With this in mind, the assumptions within the budget and medium term financial strategy have been revisited in the sections below.

Finance Settlement 2017/18

- 3.3 The Council accepted the offer made by government in December 2015 of a four-year settlement through to 2019/20 and this has been agreed. This provides a relative degree of certainty in that the revenue support grant and the baseline Business Rates funding reduction from £2.2m in 2017/18 to £1.4m in 2019/20 shouldn't get any worse during this period. However, this does not rule out additional responsibilities, costs and / or cuts in other areas being imposed.
- 3.4 The 2016/17 settlement indicated that the Council's spending power (as calculated by the funding assessment, Council Tax income and new homes bonus income) would decrease by £0.4m across the four year period to 2019/20, equating to a reduction of 2.9%. This calculation included the government assumption that district councils would raise Council Tax by £5 per annum.

Revenue Budget 2016/17

- 3.5 Budget holders have monitored income and expenditure against the 2016/17 budget throughout the year. They have also continued to prepare and work up plans to address the future deficits and implement them on an ongoing basis. The estimated forecast outturn for 2016/17 at the end of month 9 is a surplus of around £250k.

4 Update on the Medium Term Financial Strategy projections

- 4.1 The medium term financial strategy has been updated for the projected outturn for 2016/17, the 2016 Autumn Statement, the December 2016 Finance Settlement for 2017/18 and other known information. It assumes a Council Tax increase of 2% per annum based on the current rate of inflation, in the period 2018/19 through to 2020/21.

Table 1: medium term financial strategy

	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000
Net expenditure	11,862	11,423	11,090	11,690
Funding: New homes bonus	700	400	200	0
Council Tax	8,661	8,995	9,337	9,690
Revenue Support Grant	149	0	0	0
Transitional RSG	134	0	0	0
Negative RSG grant / additional 'tariff' payment	0	0	(695)	0

Baseline Business Rates	1,916	1,978	2,048	400
Additional Business Rates	200	200	200	0
Payment to parishes	(10)	0	0	0
Collection Fund surplus	182			
Total Funding	11,932	11,573	11,090	10,090
Net (Surplus) / Deficit	(70)	(150)	0	1,600

4.2 The assumptions underlying the current medium term financial strategy projections are summarised in table 2 below and expanded upon in the paragraphs that follow:

Table 2: key budget assumptions used:

Inflation on net budget	2% per annum
Increase in salaries budget	1% in 2017/18 and thereafter
Contribution to pension fund	1% in 2020/21 and thereafter
Increase in Council Tax	2.5% in 2017/18 and 2% p.a. thereafter
Settlement Funding Assessment	Reducing by 40% from £3.549m in 2015/16 down to £1.339m in 2019/20
Local Business Rates	100% retention of growth in business rates triggering a significant re-baselining in 2020
Increase in dwellings	Net of around 1,100 per year
New homes bonus - revenue	Revenue tapering down to zero by 2020/21

Interest rates

- 4.3 Economic forecasters are predicting a diverse range on inflation over the next three years, reflecting the uncertainty of the post-Brexit era. The medium term financial strategy currently budgets for a 2% increase in inflation on grounds that this is the minimum the Bank of England suggested in its November 2016 inflationary forecast inflation, rising to perhaps as much as 2.7% in 2017 and 2018. Whilst income is also affected by inflation, inflation also increases our expenditure that offsets the increases in Council Tax and charges. The impact of inflation on the medium term financial strategy will be revisited on a monthly basis as the monthly statistics are released by the Office of National Statistics.
- 4.4 The Bank of England base rate has recently fallen to a historic low of 0.25%, affecting the Council's income streams from investments. The Council has taken action over the past year to diversify the investment strategy into non-bank deposit holdings which should help to mitigate the effect, but nevertheless, this will impact on the Council's ability to generate income from investments during the period. Economic forecasters are again divided on when an upturn in interest rates may occur. The medium term financial strategy includes only a small increase over the three year period.

Salaries

- 4.5 Local government pay is negotiated nationally and the Council has no direct influence on the settlement. The local government pay award of 1% in May 2016 covered both 2016/17 and 2017/18. Given the potential prospect that inflationary pressures may drive further salary demands, further 1% pay increases in 2018/19 through to 2020/21 have been budgeted as well. In expenditure terms, this equates to approximately £175k of additional expenditure per annum.

Pension Fund

- 4.6 In December 2016, the Actuary completed their work on the triennial revaluation of the Pension Fund at 31 March 2016. At this snapshot date, the pension fund had seen an improvement to the previous funding deficit and is now fully funded. The valuation report therefore recommends that the employer's contribution to the Fund remains at 20.5% for the three year period to 2019/20; all other things remaining fairly constant. The interim assessments from the Actuary will be reviewed each year should a change to this three year approach be necessary.
- 4.5 The Council's prudent assumption is that by the time of the next triennial revaluation at 31 March 2019, a 1% employer's contribution will again be required from 1 April 2020. This is based on the experience that funding positions can quickly change, often to a deficit as the value of the assets and more importantly the value of liabilities can fluctuate with actuarial assumptions as well as market performance.

Other cost pressures

- 4.6 The projected deficits also reflect increased additional costs in borrowing and principal repayment costs, Minimum Revenue Provision (MRP), resulting from decisions to increase the expanded capital programme for projects such as the £12.3m Broadbridge Heath leisure centre and the £4.55m redevelopment of the Hop Oast depot.

Council Tax

- 4.7 Based on the current rates of inflation, it is proposed to increase Council Tax by 2.5% in 2017/18 which equates to £3.43 per equivalent band D property. This raises an extra £210k. At £140.60 it remains the lowest Council Tax in West Sussex and in the bottom quartile of all district councils.

- 4.8 The medium term financial strategy assumes that Council Tax will rise in line with inflation each year over the period. Using an inflation rate of 2% as a proxy for future years, the compounded increase in Council Tax raises an additional £190k p.a. by 2020.

Local Business Rates

- 4.9 From 1 April 2013 the structure of local government finance changed, with local authorities retaining a share of Business Rates collected in their area. The calculations are based on target rates of collection set by government and are somewhat complex, but resulted in the Council retaining around 5% of the £41m total collected, equating to around £2m. Local authorities can increase their business rate income by growing the business rate take in their area; conversely, if collections fall then local authorities bear an element of risk.
- 4.10 Historical data suggests a 'flat' picture with limited material Business Rates growth envisaged over the period of the medium term financial strategy, which is why the retained £200k additional business rate income remains static across the period to 2019/20. This area is a 'momentum indicator' where growth is more likely to continue where it is already taking place. At the moment, on average, every successful new business opening is offset by a conversion of a business premise to residential flats or a closure. In the first nine months of 2016/17, the rateable value declined by £664k. In the longer term, initiatives such as the development of North Horsham and the redevelopment of the old Novartis site may offer some upside but at the moment our economic growth as an area is way below the desirable level for affluence of its population.
- 4.11 The Council is comparatively less at risk than other authorities as it has relatively few single significant sites in respect of business rate valuations. For example, it is not the site of a power station, airport, major retail park or regional distribution centre. Some risk does exist however, principally around outstanding rates appeals for which the Council would have to bear its share of lost revenue should those appeals prove successful. The Council had a provision of £2m for business rate appeals at 31 March 2016. The slow rate at which the Valuation Office is tackling the backlog of appeals makes the Council sceptical that the provision for appeals will fall, especially as a very high level of appeals against the 2017 revaluation listing is expected.
- 4.12 Whilst the 2017 Valuation Office revaluation listing has increased the rateable value, the multiplier has fallen to compensate, with a planned neutral net effect across the country. A period of transition with a damping effect to limit some of the increases and decreases to businesses will come into effect from 2017/18. Based on our analysis, a relatively small increase in cost to the Council is expected as a result of these changes over the period of the medium term financial strategy.
- 4.13 The government has been consulting on the future of Business Rates with the intention of allowing local government to retain 100% of locally collected rates by the end of this parliament as announced in 2013. This does not mean that the Council will get to keep the £41m that it currently collects from Business Rates. Business rate income will continue to be distributed around the country as before. The Council expects that any additional revenue will only replace reductions in revenue support grant and new homes bonus which are expected to fall significantly, but this is also likely to come with additional responsibilities that will give rise to additional costs.

- 4.14 Furthermore, in the longer term, the March 2016 budget announced that the increase in the Business Rates multiplier will be switched from RPI to CPI from 2020. The multiplier is the annual increase in Business Rates determined by the government. CPI tends to go up more slowly than RPI so this change is likely to reduce the buoyancy in the Business Rates yield. Over time this will have a significant impact on the resources that are available to local government as a sector.
- 4.15 At this point it is difficult to calculate the effect of all these potential changes as not enough details are known but we can conclude that there is a high degree of uncertainty, especially beyond 2020. The expectation in the medium term financial strategy beyond 2020 is that the baseline will be significantly rebased by government to a much lower starting level of around £0.4m per annum (around 1% of the business rates collected) with all current growth zeroed but without a negative revenue support grant payment. This would result in the Council's income reducing by around £1.2m in 2020/21 compared to 2019/20. The Council will revisit these assumptions and the impact of the localisation of business rates as it learns more about how the scheme will work and the exact timing of the 2020 implementation. This will be fed into a future medium term financial strategy.

Dwellings

- 4.16 The District has seen housing growth over the last five years, helped by large developments such as those to the west of Horsham and south of Broadbridge Heath. The Council anticipates that the completion of these developments together with the delivery of new homes in Southwater and Billingshurst will continue to see growth in housing in the District at around 1,100 new dwellings each year over the medium term financial strategy period. The housing industry is of course though highly sensitive to economic factors. Therefore the medium term financial strategy also takes into account a more prudent view of the post-Brexit uncertainty and the likelihood that a recession will start to bite towards the end of the decade.

New homes bonus

- 4.17 New homes bonus was designed by central government as an incentive payment to local authorities to stimulate housing growth in their areas. The amount paid is based on a calculation derived from Council Tax statistics submitted each October and was payable for the first time in 2011/12. Since then, following significant reductions in revenue support grant, it has been a major source of finance for many councils.
- 4.18 New homes bonus is paid for each new property on the Council Tax valuation list and for empty properties brought back into use, with a small additional sum for affordable homes. In two-tier local government areas this payment is currently split in the ratio 20% to county councils, 80% to district councils. It is not ring-fenced and can be used at the Council's discretion. Details on the amounts already paid to the Council are shown in **Appendix H**.
- 4.19 Between 2013/14 and 2016/17, in response to the reduction in the revenue support grant, the Council allocated a total of £1.166m each year from new homes bonus to fund the shortfall in its revenue account and transferred any sums in excess of this level to a new homes bonus reserve.
- 4.20 In December 2016 the government made changes to the mechanism of new homes bonus. Thus in 2017/18, the number of years for which the bonus is payable is reduced from six to five and payments will reduce to four years in 2018/19. A 0.4% baseline, which needs to be exceeded before any new homes bonus payments are

made, was also introduced. For 2017/18, measured against the total band D equivalents in the district, 0.4% equates to approximately 240 additional houses a year before we receive anything.

- 4.21 The government retained the option of making adjustments to the baseline in future years. Further consultation on new homes bonus will take place over the next 12 months. Future variations to the baseline are therefore expected. On the Council's current number of band D equivalent dwellings, an increase in the baseline of 0.1% is approximately equivalent to 60 houses. All other things remaining equal, this would result in a reduction in new homes bonus of approximately £92k from 2017/18 levels.
- 4.22 In 2015, in response to growing uncertainty surrounding the future of new homes bonus, the Council decided to reduce its reliance on new homes bonus to support revenue by tapering this down to zero over the period from 2017/18 to 2019/20. In addition, the Council is taking measures to increase income and phase in additional spending reductions to balance its budget. Therefore, as the first part of this tapering, in 2017/18, only £0.7m of new homes bonus will be used to support revenue.
- 4.23 At 31 March 2016, the new homes bonus reserve stood at £3.7m. It is expected to be £7m at the end of 2017/18 after the allocation of £4m to the new Broadbridge Health leisure centre. However, while there is now less uncertainty in the medium term that new homes bonus will continue, albeit with further changes, given the government's aim to eliminate the national deficit, new homes bonus cannot be considered a permanent source of council income and thus it remains prudent to use it for purposes other than as a revenue stream and achieve a balanced budget without it.
- 4.24 Under the current assumptions the forecast is that the new homes bonus reserve will grow, so consideration should now be given to developing a policy for the best use of it to help the Council and district in the longer term. It is suggested that the key aims of such a policy should be to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. It is proposed that the policy should be developed early in 2017/18.

Alternate weekly collection

- 4.25 At the 24 November 2016 meeting, Cabinet approved the introduction of alternate weekly collections for residual household waste from Spring 2018 and also approved plans to procure a rear-loading vehicle fleet to replace the current ageing fleet which is coming to the end of its useful economic life. Estimated combined savings of around £1m per year compared to the projected budget for 2018/19 have been included in the medium term financial strategy from 2018/19. This has enabled the 2018/19 budget to be balanced and makes balancing future budgets in the medium term financial strategy much more achievable.

5 Draft Revenue Budget for 2017/18

- 5.1 The 2017/18 budget has been prepared following a detailed "Budget Challenge" with Service Managers challenged to increase revenue streams and reduce expenditure. The challenge process is there to ensure that excessive budgeting is avoided, additional income is found and efficiency savings are made. It also ensures that adequate resourcing is provided to meet service delivery items.

- 5.2 The budget requirement is for £11.86m. The detail of the revenue budget is shown in **Appendix A**. The budget is balanced and a small transfer of £70k to general reserves is envisaged. We are including £0.7m of new homes bonus funding in revenue in 2017/18. This is in line with the Council plan to taper revenue reliance on new homes bonus to zero by 2020/21 from the £1.166m that was taken into the revenue budget in 2016/17.
- 5.3 The main items of growth and savings in the 2017/18 budget are detailed in **Appendix B**. Salaries remain a significant cost pressure in 2017/18 relating to a 1% pay award to staff and a number of increments. However by reducing posts and hours, the Council has managed to reduce the salaries bill (excluding apprenticeships) by around £220k.
- 5.4 Other significant items of growth include litter picking safety requirements when working on the side of the districts dual carriageways, the creation of a new district arts and heritage strategy to uplift awareness of the arts within the district, and the increased revenue costs of the capital programme.
- 5.5 The significant areas of revenue growth include further income from the property investment fund, a more expansive investment strategy, expansion of trade waste including the bulky bag scheme, a £2 increase in the price of garden waste collection and the introduction of rural car parking charges alongside additional urban car parking income volumes. In total, the additional income and savings generated exceeds the cost pressures and the net budget at £11.86m requirement is £0.7m lower than the £12.55m from the previous year.
- 5.6 The budget also includes £6k of grants to community partnerships and £249.5k of grants to the voluntary groups, the largest being £94k to the Citizen Advice Bureau in Horsham. A full list is included in **Appendix C**.

6 Special charge

- 6.1 Details of the Special Charge expenditure of £280,319 are included in **Appendix D**.
- 6.2 As a result of the changes to council tax benefits, the tax base of the unparished area reduced in 2013/14. To ensure comparability with the funding of the parishes, an element of the Council Tax Support Grant needs to be attributed to the unparished area, a sum of £1,230.
- 6.3 It is currently proposed that the Special Charge for 2017/18 is set at £24.40, raising a sum of £279,089. This, with the addition of the grant, is sufficient to fund the proposed Special Expenses. The increase in the special charge was discussed with the Neighbourhood Councils at the end of November 2016.

7 Council Tax for 2017/18

2017/18 £000		2016/17 £000
11,862	Net expenditure	12,546
70	Contribution to/(from) general reserves	177*
11,932		12,723
(149)	Revenue support grant	(825)

(134)	Transitional grant (one-off funding for two years)	(134)*
10	<u>Less</u> parish share of Council Tax support grant	49
(4,815)	New homes bonus	(4,398)
4,115	<u>Less</u> contribution to new homes bonus reserve	3,232
(1,916)	Business Rates retention scheme baseline	(1,878)
(200)	Business Rates retention scheme net additional business rates	(400)
8,844	Expenditure to be financed from District Council Tax	8,369
(279)	<u>Less</u> funding by Special Charge taxpayers	(265)
(182)	<u>Less</u> share of estimated surplus on Collection Fund	(120)
8,384	Expenditure to be funded from District Council tax	7,984
59,630	Estimated band D equivalent properties	58,208
£140.60	Council Tax at band D	£137.17
£2.70	Cost per week at band D	£2.64

* Amended to be inclusive of the £134k one-off transitional funding which arrived after the 2016/17 budget was set.

8 Capital Budget

- 8.1 The draft capital programme is attached as **Appendix E (i)**. This includes changes to the programme approved during the year and an estimate of the likely budget that has been re-profiled from 2016/17 to 2017/18. The new programme for 2017/18 is for approval by full Council. Budgets for future years are included to indicate the scale of provision which may be required to maintain the life of the Council's assets and meet the aspirations in the District Plan.
- 8.2 The Council's project management methodology will be applied to projects detailed in the Capital Programme for 2017/18. Business cases are completed to ensure that decisions taken by the Council represent Value for Money.
- 8.3 Of the £23m capital programme proposed to be delivered in 2017/18, the majority has already been approved in preceding years such as the schemes on the Broadbridge Heath leisure centre and the Hop Oast redevelopment. 2017/18 includes a straight line profile £3m of the five year £15m property investment fund programme. There are also fifteen other new schemes totalling £3.5m of which £2.4m has identified funding sources, with the remaining £1.1m currently unfunded. Summary details of the new schemes can be found within **Appendix E (ii)**.

Minimum Revenue Provision

- 8.4 The Council is required to set aside funds to repay the borrowing need each year through a revenue charge called the minimum revenue provision. Regulations have

been issued which require full Council to approve a statement of the provision in advance of each year and the statement is shown in **Appendix F**.

Prudential indicators

- 8.5 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code (2011) and produce prudential indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. This report revises the indicators for 2016/17, 2017/18 and 2018/19 and introduces new indicators for 2019/20. The Council is asked to approve the indicators set out in **Appendix G** to be adopted. The individual indicators are discussed below.

Capital expenditure plans

- 8.6 The first prudential indicator is the Council's capital expenditure plans and how they will be financed. **Appendix G** shows the projections and the Council is asked to approve the estimates as the first prudential indicator. This is the impact of the Capital Plans set out in **Appendix E**, the anticipated financing and the resultant financing need.

The Council's borrowing need, the Capital Financial Requirement

- 8.7 The second prudential indicator is the Council's Capital Financial Requirement. This is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need.

Gross debt and the Capital Financing Requirement

- 8.8 This indicator is designed to show that borrowing is only for capital purposes by showing gross borrowing against the Capital Financial Requirement.

Limits to borrowing activity and affordability

- 8.9 The first two prudential indicators cover limiting levels of debt and final two indicators are designed to assess the affordability of the capital investment plans. Borrowing is subject to two limits and both are increasing over the period shown as the Council's need to borrow increases. Affordability is dealt with in two indicators which show estimates of the ratio of financing costs to the net revenue stream and the incremental impact of the capital decisions on the Council Tax. The estimates are set out in **Appendix G** and the Council are asked to adopt them as the final group of prudential indicators.

9 Actions taken

- 9.1 The Council has been working on ideas for several months to ensure that it can continue its business transformation journey to meet the demands and expectations of its customers in the face of financial and demographic pressures. The current transformation programme is called "Future Horsham" and will deliver a stronger organisation which will be more productive and better equipped to serve customers. It will also help to protect front-line services whilst ensuring that the Council has a strong and responsive support services.
- 9.2 As well as identifying around £1.4m of transformational efficiencies from self-service, shared services, changing ICT technology, contract reviews and redesign of business processes, the Council has also identified around £1.8m of new income sources and additional income expected from a growth in the number of users.

- 9.3 Whilst there will be a cost in implementing the transformation for which £0.5m each year is envisaged, the transformation will help protect the level of general fund reserves as set out in **Appendix I**. The Council will continue to review potential actions that it could take to help pay towards further transformation and / or income generating ideas to help work towards balancing the deficit in 2020/21. These will be brought back in the next medium term financial strategy.

10 Risks

- 10.1 The medium term financial strategy takes a prudent but balanced view of the financial future, but continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium term. These risks are set out in summary below and include:
- late delivery of savings / income
 - lower savings or income as it can't be delivered to the size / scale envisaged
 - income may be affected by external factors such as a recession. A recession is probably due towards the end of the decade
 - significant uncertainty from the impact of Brexit and after the current settlement period beyond 2020.
 - further or steeper funding cuts / to help government meet their deficit reductions targets.
 - legislation forcing local government to pick up additional responsibilities that we don't yet know about
 - growth, from changing local factors for which we have no control, such as potentially two new cinemas coming to Horsham and the impact that this might have on the income at the Capitol for example.

11 Next steps

- 11.1 The Council meeting on 15 February 2017 will set the Council Tax for 2017/18.

12 Views of the Policy Development Advisory Group and outcome of consultations

- 12.1 The proposed budget, medium term financial strategy and assumptions were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 19 December 2016 and the Group was supportive of the proposed strategy.
- 12.2 A seminar for all Members was held on 10 November 2016 to allow all Members the opportunity to discuss and review the medium term financial strategy proposals in advance of the 2017/18 budget setting process. The medium term financial strategy was also discussed at Cabinet on 26 November 2016. The Leader and Deputy were also briefed on the 2017/18 budget on 15 December 2016 and updated again on 5 January 2017.
- 12.3 The Chief Executive, Directors and the Head of Finance have been extensively involved in preparing the medium term financial strategy and are fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

13 Other courses of action considered but rejected

- 13.1 Not taking actions set out in this report would put at risk the ability of the Council to balance the budgets in 2017/18, 2018/19 and 2019/10 or to reduce the budget deficit projected for 2020/21. Therefore, not taking any action has been rejected.

14 Resource consequences

- 14.1 The Future Horsham changes will lead to a reduction in the size of the workforce over the next three years. In December 2016, Horsham District Council employed 471 staff in total. This constituted 413 full time equivalent (FTE) posts. The precise figure of reductions, currently estimated at 25 posts, will be firmed up as detailed plans for the individual elements are finalised.
- 14.2 In accordance with the Organisational Change Policy the Council will take steps to avoid compulsory redundancies as far as possible through a combination of vacancy control, redeployment and, in appropriate cases, voluntary redundancy. Five redundancies were made in the period from September 2016 to December 2016.

15 Legal consequences

- 15.1 There are no legal consequences as a result of this report.

16 Risk assessment

- 16.1 The Council's reliance on central government controlled funding and balancing the Medium Term Financial Strategy is captured on the Corporate Risk Register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis.

17 Other considerations

- 17.1 There are no consequences of any action proposed in respect of Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.