Report to Cabinet

23 November 2017
By the Cabinet Member for Finance and Assets
DECISION REQUIRED

Not Exempt

Horsham District Council

Medium Term Financial Strategy 2018/19 to 2021/22

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.

The 2017/18 Budget was approved in February 2017 and a balanced budget was projected for 2017/18 through to 2019/20, with a projected deficit in 2020/21. Since then, the Council has been working further on income generation, continuing the business transformation journey to the next stage and other efficiency measures to mitigate against the cost pressures that continue to rise. This report sets out the proposed Strategy for the period 2018/19 to 2021/22 to establish the context for the Council's Budget and medium term financial planning scenarios and assumptions.

Recommendations

The Cabinet is asked to recommend to Council:

i) the approval of the Medium Term Financial Strategy 2018/19 to 2021/22, and:
ii) the approval to use New Homes Bonus to finance more infrastructure and investment property already in the capital programme as detailed in paragraph 3.29, and to:
iii) note the projected balanced budgets and budget gap as detailed in paragraph 3.6 of the report

Background papers

Report to Cabinet

Wards affected: all

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Background Information

1 Introduction and background

1.1 The Medium Term Financial Strategy was last fully reviewed by Council on 15 February 2017 as part of the annual budget setting cycle. At that meeting a balanced budget for 2017/18 was approved. Cabinet and Members have been kept informed via quarterly budget monitoring and presentations since then to keep them informed of progress with the development of the new strategy.

1.2 The local government finance system is becoming increasingly complex. The difficultly 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 government's welfare reform programme and future income from retained Business Rates. It is however certain that the amount of money available to district councils will continue to reduce over the next five years.

1.3 Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. However, balanced budgets in 2018/19 to 2019/20 remain predicted through a combination of a range of measures including income generation, continuing the business transformation journey to meet the demands and expectations of our customers, and other efficiency measures.

1.4 This review ensures that the 2018/19 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.

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 offer of a four-year settlement through to 2019/20, which was made by Government in 2016 was accepted and remains in place. This provides a relative degree of certainty in that the Revenue Support Grant and the baseline Business Rates funding level will not get any worse during this period although it does result in a £0.8m reduction in our government funding over the period. However this is subject to any change to legislation for 100% Business Rates localisation, which is being piloted across the country but has yet to be formally legislated.

3.2 The Local Government Association (LGA) has calculated that the total Core Spending Power of all Local Authorities (defined as baseline funding from government in paragraph 3.1 and income from Council Tax and Business Rates retention) will reduce by £6.75bn over the review period (2015/16-2019/20). The Council's detailed financial settlement for 2018/19 which we expect to broadly confirm the four-year settlement will probably be communicated to us immediately prior to Christmas.

3.3 UK economists are divided over whether the UK economic outlook has been affected by the apprehensiveness and uncertainty surrounding the negotiations from Britain's exit from the European Union which may happen in March 2019. In the meantime, EU legislation remains in force.

3.4 Whilst the long term future impact remains uncertain it should be noted that interest rate forecasts have been updated based upon outcomes to date, the Bank of England base rate continues to be historically low, a £445m quantitative easing programme and some reduction in the credit rating of UK banks by investment firms. Whilst the Bank of England raised interest rates to 0.5% in November 2017, they remain at historically low levels with significant increases not predicted within the period of this MTFS. The value of the pound decreased significantly following the June 2016 referendum; and remains around 13% lower against the U.S. Dollar and the Euro. Conversely, the FTSE 100 share index has risen by around 23% since the referendum to around 7,500.

3.5 Inflation has started to increase in recent months putting pressure on expenditure. In October 2017 it measured 4.0% under the Retail Price Index (RPI) and 3% under the Consumer Price Index (CPI). The impact from the cost of fuel is also slowly rising. 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. Figures from the first half of 2017/18 show planning and Horsham town centre parking below budget. These could be early signs of a downturn in the local economy. 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 MTFS have been revisited in the sections below.

Budget assumptions assuming income and efficiency actions being worked on are implemented

3.6 Future budget projections are based on a number of assumptions. Table 1 sets out the budget assumptions at November 2017 and Table 2 the forecast revenue budgets in 2017/18 through to 2021/22. Details of the budget assumptions and the reasons for the change in assumptions are explained in the following paragraphs.

Table 1: Budget assumptions

	November 2017			
Budget Assumptions	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Pay award annual average 1.5%	£260k	£260k	£260k	£260k
Inflationary pressures approx. 3%	£350k	£350k	£350k	£350k
Pensions revaluation approx. 1%	£0	£0	£125k	£125k
Minimum level of reserves	£6m	£6m	£6m	£6m
Increase in borrowing costs	£125k	£125k	£125k	£125k
Reduction in RSG	£280k	£700k	*£0	*£0
Increase in dwellings	1,200	1,100	1,100	1,100
Increase in Council Tax	£5	-	-	-

* From 2020, 100% localisation of Business Rates growth is expected to end other forms of grant funding, such as RSG, but also result in a significant re-baselining of NDR income at a much lower level as well.

Table 2: Revenue budget assuming income and efficiency actions being worked on are implemented

November 2017	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Net expenditure	11,860	10,900	10,450	11,550	12,500
Funded by: New Homes Bonus	700	250	0	0	0
Council Tax	8,660	9,140	9,300	9,450	9,650
Government grant - RSG	280	0	(700)	0	0
Government grant - Business Rates	1,920	1,980	2,050	400	400
Additional Business Rates retained	200	200	0	0	100
Collection Fund surplus / (deficit)	180	-	-	-	-
Payment to parishes	(10)	0	0	0	0
Total funding	11,930	11,570	10,650	9,850	10,150
Net deficit	**(70)**	**(670)**	**(200)**	**1,700**	**2,350**
In year forecast surplus at M6	**(250)**				

Inflation cost pressures and interest rates

3.7 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 2017/18 as well. Central government has indicated that they are aware that the potential prospect of inflationary pressures may drive further salary demands within the public sector. Increases above the 1% pay cap were announced in September 2017 for prison officers and the Police. As yet, this has not resulted in any intention being signalled for the local government sector but Parliament is debating public sector pay in early December. It is though anticipated to be revealed in the Autumn Budget on 22 November 2017. An average 1.5% pay increase each year through to 2021/22 has been budgeted in the MTFS above. In expenditure terms this equates to approximately £260k of additional expenditure per annum. Any changes will be reflected in the 2018/19 Budget in February 2018.

3.8 Economic forecasters are also predicting a diverse range on inflation over the next three years, reflecting the uncertainty of exit from the European Union. The MTFS currently budgets for a 3% increase in inflation on the expectation that inflation will remain at or near current levels. The Bank of England suggested in its November 2017 inflationary forecast CPI would peak in 2017 at 3.25% and fall back towards its own target of 2% reaching 2.5% by 2019. 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 MTFS will be revisited on a regular basis as the monthly statistics are released by the Office of National Statistics.

3.9 An increase in pension contributions is not currently anticipated in 2018/19 or 2019/20 on the basis of the 2016 triennial revaluation of the Council's Pension Fund. This will be revisited annually in the interim periods until information about the 2019 full triennial revaluation of the Council's Pension Fund funding statement is finalised by the actuary. But a future increase in funding remains probable.

3.10 The Bank of England base rate increased to 0.5% in November 2017 but remains at historically low levels, affecting the Council's income streams from investments. The Council has taken action over the past eighteen months to diversify the investment strategy into non- high street bank style deposit holdings which should help to

mitigate the effect by generating more income, but nevertheless, this will impact on the Council's ability to generate income from investments during the period.

3.11 The amount of money the Council has on deposit generating interest income is also likely to decrease as the proposed strategy to spend commuted sums on affordable housing will lower the amount of funds held by the Council. Significant capital expenditure is also rapidly reducing other funds held by the Council to the extent that the Council started to short term borrow in 2017/18, which will transition to long term borrowing by the end of the MTFS. The positive side of the low Bank of England base rate is that the cost of borrowing is also relatively low.

3.12 Economic forecasters are again divided on when an upturn in interest rates may occur. At the moment, the MTFS includes only a small increase over the three year period which is in line with our treasury management advisors' opinion.

Council Tax

3.13 The government's 2015 Settlement funding assumptions include all district councils increasing their Council Tax by the larger of 2% or £5 each year over the 4 year settlement period. The Council increased Council Tax by 2.5% (RPI at December 2016) in 2017/18 which equated to an increase of £3.43. It remains the lowest Council Tax in West Sussex and in the bottom quartile of all district councils. RPI is currently 4.0% at October 2017. An inflationary increase in Council Tax, capped at £5 is included in the 2018/19 budget projections, but no further increases have yet been built into the MTFS projections through to 2021/22. Every 1% increase in Council tax increases income by approximately £95k.

Localisation of Business Rates

3.14 The Council currently retains around 5% or £2m of the £44m Business Rates collected in the district, which is based on a complex calculation involving target rates of collection set by government. 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. Local authorities currently share this risk and reward with central government 50:50.

3.15 Historical data suggests a fairly 'flat' picture with limited material Business Rates growth envisaged over the period of the MTFS. 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 more or less offset by a conversion of a business premise to residential flats (under the permitted development regime introduced by the Government) or a closure. In 2016/17, after much fluctuation, the 2010 Rateable Value rose by £300k over the year. In the first seven months of 2017/18, the 2017 rateable value list has declined by £357k. Redevelopments in Piries Place and Swan Walk shopping centre are also likely to result in a significant reduction in RV before they improve. In the longer term, initiatives such as the development of North Horsham and the redevelopment of the former 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.

3.16 In comparison with other authorities the Council is comparatively less at risk 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 £2.13m for business rate appeals at 31 March 2017. 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.

3.17 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. A relatively small increase in cost to the Council is expected as a result of these changes over the period of the MTFS.

3.18 In 2013, Government announced its intention of allowing local government to retain 100 percent of growth of locally collected rates by 2019/20. How this will happen and what impact it will have on local government remains uncertain. No formal legislation has been put forward by Government. The Council is part of the 2018/19 100% Business Rates pilot bid with all the local government authorities in West Sussex but as this is a pilot and is only for one year, it is unclear how this will affect the finances over the medium term.

3.19 100% Business Rates localisation does not mean that the Council will get to keep the £44m that it currently collects from Business Rates. Business rate income will continue to be distributed around the country as before. The 100% localisation refers to the level of growth (or fall) from the baseline that is likely to be reset. The Council will also share this growth (or fall) with West Sussex County Council, although the current share of 20:80 may change.

3.20 In addition, based on the criteria for the pilot, the Council expects that any 100% localisation of Business Rates will involve the replacement of other funding streams such as RSG which by 2019/20 is a negative £700k, and is also likely to come with additional responsibilities that would give rise to additional costs. It is possible that New Homes Bonus could be made part of this too.

3.21 Furthermore, 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. Some analysts close to government are predicting that this change may happen before 2020, to reduce the pressure on businesses sooner.

3.22 At this point therefore, it is difficult to calculate the effect of all these potential changes as not enough details are known but can conclude that there is a high degree of uncertainty, especially beyond 2020. The Council has made the assumption that a significant re-baselining and including the £700k negative RSG would result in Business Rate income of about £400k rather than the current £2m. The Council will revisit the impact of this as it learns more of how the scheme will work and will feed this into a future MTFS.

New Homes Bonus (NHB)

3.23 The New Homes Bonus provides an incentive payment for local authorities to stimulate housing growth in their area. The calculation is based on Council Tax statistics submitted each October. In two-tier local government areas this payment is currently split in the ratio 20% to county councils, 80% to district councils. NHB is currently not ring-fenced and can be spent at the Council's discretion.

3.24 Originally a scheme based on payments for six years, in 2017/18, the incentive was sharpened and the 'bonus' was payable for only the following five financial years based on each (net) additional property using a standardised Council Tax Band D amount (£1,455). A 0.4% baseline was also introduced in 2017/18 which needs to be exceeded before any NHB payments are made. For this Council, this means that approximately 240 band D equivalent dwellings need to be built before any grant is received.

3.25 From 2018/19, the mechanism under which NHB funding levels are determined will reduce to a four year payment. Government has also hinted that the baseline may be also reviewed. Therefore the future amounts the Council will receive in future will be limited as the sixth and fifth years are lost and will fall if the baseline is increased. Appendix A also models a 0.7% baseline scenario which is more akin to the national average increases in growth in the council tax-base.

3.26 Advisors have also tentatively expressed the view that the sharpening might include only payments over each council's Housing delivery requirement in the medium term. For the Council, this would be approximately 800 homes in the year and equates to about 1.2% as a baseline. Appendix A models this third scenario from 2019/20.

3.27 The future of New Homes Bonus itself is also uncertain as it is potentially a counterweight in any 100% localisation of Business Rates scheme that may happen in 2020. Government is yet to confirm that NHB will continue at all into the 2020s.

3.28 In anticipation of this reduction and potential loss in funding, the Council planned to taper its revenue reliance on NHB over the three year period so that by 2019/20 it does not include any NHB in revenue funding. This contrasts to the £1.17m that was included in the 2016/17 revenue budget.

3.29 The principle of using the reserve 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 resident was considered in the budget papers in February 2017. A recommendation has been included in this report to fully finance the Broadbridge Health leisure centre and then to start to finance the planned annual £3m investment in property. Appendix A models this approach in all scenarios.

3.30 The allocation of some of the NHB to finance elements of the expected existing capital programme reduces the impact on the Minimum Revenue Provision which in simple terms is akin to an annual repayment to pay back the funds borrowed for the capital asset.

3.31 The NHB reserve stood at £4.9m at 31 March 2017. Depending on the severity of the sharpening of the scheme, the reserve is forecast to be between £3.6m and

£6.4m by 31 March 2020, after allowing for additional allocations to fully fund the new Broadbridge Heath leisure centre and then the planned annual £3m investment in property. This is subject to continued house building continuing at the same rate.

Capital programme

3.32 The July 2017 supplementary capital budget for the £15m acquisition the Forum as a commercial investment property and operational car park took the 2017/18 capital programme to £46m which includes the Broadbridge Heath Leisure centre, completion of the Hop Oast depot redevelopment and new waste collection vehicles. At month 6, capital budget holders are slightly optimistically anticipating that £32m (70%) will be spent by 31 March 2018. This compares to the 2016/17 outturn of £9.2m or 52% of the £17.9m capital budget.

3.33 Of the currently identified £14m slippage in 2017/18, £4m relates to the delay in the commencement of the Broadbridge Heath leisure centre, £4m on other commercial investment property, and £3.8m on temporary and affordable housing; relating to both housing enabling grants and two temporary housing developments that the Council is planning to deliver in house.

3.34 The provisional 2018/19 capital programme includes around 15 new capital programme bids for 2018/19 that have been put forward for consideration and the business cases are currently being reviewed. Around £0.6m of the £1.8m of new schemes has identified funding sources, with the remaining £1.2m currently unfunded. The schemes include improvements to parks and countryside, parking, property and the Capitol. The two-stage challenge process will refine this list before the capital programme is finalised in January 2018.

3.35 When the unspent 2017/18 programme is re-profiled and added to the new year programme, approximately £26m is expected in the programme in 2018/19. The programme includes £7.25m on Piries Place car park and £3m on investment property. The impact of an enlarged capital programme is that the Council's minimum revenue provision (MRP is a prudent mechanism to pay back the capital) increases significantly, as do the interest payments on the borrowing. Using NHB to finance BBH leisure centre and then future investment property expenditure reduces the pressure of MRP expenditure from around £0.9m per annum to around £0.75m per annum which is forecast each year from 2018/19 across the MTFS. Without this application, the cost of MRP would rise considerably. The 2019/20 capital programme is already indicatively forecast to be around £8.5m before any new schemes are considered.

3.36 The purchase of the Forum has had a positive revenue effect from commercial rental income and a removal of the lease cost for the car park. Together these have combined to substantially improve the forecast surplus for 2018/19 and 2019/20 and help to reduce the forecast deficits in 2020/21 and 2021/22.

Reserves and reserve strategy

3.37 The Council holds two types of reserves, earmarked reserves and general revenue reserves. 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 2017 are shown in table 3 below.

Table 3: Earmarked reserves

Earmarked Reserves at 31 March 2017	£'000
Neighbourhood Planning Grant	278
S106 reserves	1,184
NNDR reserve	1,435
Council Tax localisation	293
Health and Wellbeing	177
Transformation fund	113
BBH leisure centre (NHB)	1,383
Other	718
Total	**5,581**

3.38 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 and redundancy payments. General reserves at 31st March 2017 were £9.5m. Of this, £0.5m of the 2016/17 revenue budget surplus has subsequently been added into the earmarked transformation reserve to fund one-off up-front costs of business transformation in 2017/18.

3.39 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2020 onwards income from central government is uncertain due to the consultation around business rate localisation. The Council's current strategy on reserves gives sufficient flexibility and headroom to deal with any issues that arise. Implementing Future Horsham efficiencies and planned income schemes, together with the potential actions set out later below, would result in balanced and surplus budgets through to 31 March 2020. Apart from funding this transformation, the Council would not need to dip into reserves. However, applying reserves in excess of the minimum level to finance the capital programme would help reduce the MRP charge. Therefore the general fund balance is anticipated to be around the £6m to £6.5m mark at the end of 2019/20.

3.40 The intention is to further review the strategy in the light of any new information on Business Rates localisation and political and regulatory announcements in the Autumn Budget as and when these become available to ensure that the budgets will be balanced on an ongoing basis into the 2020s as well.

Future Horsham

3.41 Under the banner of "Future Horsham", the Council has already started to implement some of the ideas 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. Future Horsham will deliver a stronger Council 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.

3.42 The key elements of the changes that are happening are:

- ***Shared Services and back office functions**:* Whilst the investigation into shared services with Chichester and Arun District Councils was ultimately not successful for Legal, HR and Internal Audit, the findings from this work have helped identify savings that will now be made locally. In addition, following with a review in ICT and a new Financial Management System in Finance, around £0.5m is anticipated to be

saved per annum from these back office functions from 2018/19. From April 2018, the Internal Audit service will be provided by Orbis, which is a wider Surrey and Sussex led partnership. In addition the Council is also looking at other areas of shared service, including for example expansion of the Building Control partnership to include Arun District Council.

- ***Change of technology:*** The Council has identified a new ICT strategy which will help to define how it invests in technology to support the Future Horsham programme. For example, this will enhance mobile working and there will be a greater ability for customers to self–serve online.
- ***Self-service:*** The future model for internal support services (e.g. Finance and HR) will mean that managers are trained, equipped and empowered to deal with routine matters directly so that costs are reduced in the back office.
- **Service efficiency:** A systematic approach to redesigning business processes will be implemented to ensure they are as streamlined as possible and that the technology the Council employs works to maximum benefit.
- **Contract reviews:** The Council will re-negotiate existing contracts with service suppliers to reduce costs. It has already done so to a substantial scale on the Leisure Centre Management contract.
- **New businesses:** The Council aims to become more commercial. It needs to generate more income and have more ideas such as the bulky bag collection service. An incubation hub has been set up to encourage this.
- ***Benefits review:*** The Council gave formal notice to leave the current Census Revenues and Benefits partnership arrangement in March 2017. From April 2018 the service will be provided by LGSS It is anticipated that this service has the potential to save money from an improvement in quality that reduces the penalty of lost subsidy from a Local Authority error rate that is over the government's tolerable threshold.

3.43 In total, Future Horsham business transformational efficiencies are expected to heavily contribute to the £1.5m efficiencies total by 2019/20. In addition, over the same period, the Council has also identified around £2m of new income sources from the Future Horsham project, including that from the larger property investment portfolio and additional income expected from a growth in the number of users.

3.44 The Council is also undertaking a productivity review of all front-line services over the next 18 months. The results of this will be incorporated into the MTFS should any savings or income be identified. This should help to mitigate some of the unavoidable cost increases each year.

Potential actions

3.45 Having implemented the rural car-parking strategy, agreed changes to the waste collection next year, increased garden waste charges and significantly increased the property investment portfolio in 2017/18, much of the big decision making has already been incorporated into the MTFS. Whilst there is now a healthier predicted surplus in 2018/19 and 2019/20 due to actions already taken in 2017/18, continuing action is needed to fund further transformation and help to prepare for the deficits that are currently predicted in the 2020s.

3.46 When the budget report is presented to Cabinet at the end of January 2018, it will include the anticipated savings from the business transformation programme, other service efficiencies and income.

3.47 The Council has some potential actions it could take now to further mitigate the deficit in 2021/22. It could choose to increase Council Tax, and other fees and charges. Potential options are in table 4 below. It could also consider reviewing the delivery of some discretionary services and further rationalising its property estates.

Table 4: Potential options

Potential Options	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**	***2021/22 £000s***	***cumulative effect by 2021/22***
Increase in C-Tax using inflation limited to £5 in 2019/20 and 2% limit thereafter.	Included in budget assumptions at £5	300	200	200	***£700k***
Increase in garden waste charge by £2	Included in budget assumptions at £2	100	100	100	***£300k***
Targeted increase of car parking charges across some car parks and season ticket price differentials	Included in budget assumptions at £150k	25	25	25	***£75k***
Total of potential options	**-**	**425**	**325**	***325***	***£1.075m***

3.48 This would have the impact of reducing the deficits in the latter years as shown in table 5:

Table 5: Possible budget in the future after actions:

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
November 2017	**£000**	**£000**	**£000**	**£000**	**£000**
Net expenditure	11,860	10,900	10,325	11,275	12,125
Funded by: New Homes Bonus	700	250	0	0	0
Council Tax	8,660	9,140	9,600	9,975	10,350
Government grant - RSG	280	0	(700)	0	0
Government grant - Business Rates	1,920	1,980	2,050	400	400
Additional Business Rates retained	200	200	0	0	100
Collection Fund surplus / (deficit)	180	-	-	-	-
Payment to parishes	(10)	0	0	0	0
Total funding	11,930	11,570	10,950	10,375	10,850
Net deficit	**(70)**	**(675)**	**(625)**	**900**	**1,275**
In year forecast surplus at M6	**(250)**				
Future efficiencies at £300k per annum (shown cumulatively)				300	600
Remaining gap to close				**600**	**675**

3.49 The current Future Horsham programme of efficiencies and income generation has not specifically identified schemes into the 2020s. However, the programme will be extended by looking for new sources of income, reviewing our workforce especially around recruiting and retaining local staff and supporting our people to take on

broader and more complex roles, comparing us to others through our productivity reviews to see if we can provide the same more efficiently, replacing our technology with cheaper, Cloud based options and increasing the amount of self-service using the internet and social media.

3.50 This would help to close the budget gap to a more manageable amount in the future. It is also expected that as the Council gets to these years, the budgets would be firmed up with actual efficiencies and income to balance the budget.

4 Next steps

4.1 On 25 January 2018, the 2018/19 Budget will be taken to Cabinet to recommend approval at the 21 February 2018 full Council meeting where the Council Tax for 2018/19 will be set. The MTFS will also be updated at this time to take account of the Autumn Budget and our settlement plus the final details of the 2018/19 Budget.

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

5.1 The proposed MTFS, assumptions and potential actions were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 30 October 2017. The Group was supportive of the proposed strategy and also supportive of inflationary increases in Council tax, fees and charges in all years over the MTFS to help deal with the deficits early.

5.2 The Chief Executive, Directors and the Head of Finance have been extensively involved in preparing the medium term financial strategy and fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

6 Other courses of action considered but rejected

6.1 Not taking actions set out in this report would put at risk the ability of the Council to deliver the balanced budgets for 2018/19 and 2019/20 and reduce the budget deficits projected for 2020/21 and 2021/22. Therefore, not taking any action has been rejected.

7 Resource consequences

7.1 The Future Horsham changes will lead to a reduction in the size of the workforce over the next three years. In September 2016, Horsham District Council employed 462 staff in total. This constituted 413 full time equivalent (FTE) employees. By comparison at September 2017, the Council employed 427 staff in total, constituting 380 FTEs. The precise figure of future reductions, currently estimated at between 10 and 20 posts, will be firmed up as detailed plans for the individual elements are finalised.

7.2 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.

8 Legal consequences

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

9 Risk assessment

9.1 The Council's reliance on central government funding and balancing the medium term financial plan 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.

10 Other Considerations

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