

Report to Cabinet

25 January 2018

By the Cabinet Member for Finance and Assets

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

THE 2018/19 BUDGET AND THE MEDIUM TERM FINANCIAL STRATEGY to 2021/22

Executive Summary

This report sets out details of the proposed 2018/19 revenue and capital budgets following the receipt of the provisional financial settlement from government on 19 December 2017. The net budget requirement for 2018/19 at £10.7m is £1.1m lower than in 2017/18. The Council is able to set a balanced budget for 2018/19, generating a small surplus which will help towards funding future transformation to maximise efficiency and effectiveness. In the year, the Council will be delivering a £24.3m capital programme, while the level of council tax proposed remains the lowest in West-Sussex.

In his November 2017 Budget the Chancellor did not change the government's policy of reducing funding to local authorities as a means 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 provisional settlement in December 2017 duly confirmed that we will receive no Revenue Support Grant from government in 2018/19.

The report also reviews the Medium Term Financial Strategy 2018-22 approved by Council in December 2017 in the light of any updated information. The current projection is for the Council to have a small budget surplus in 2018/19. A surplus will continue in 2019/20 despite government revenue grant turning negative. After that, the government has proposed a significant change of business rate policy that we feel could impact badly on the Council's finances and without action, would result in budget deficits. It should be noted though that there is limited detail available about this policy change at present. The budget projections beyond 2020 are deficits of £1.6m in 2020/21 and £2.3m in 2021/22.

The Council plans to continue 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. While the immediate programme focuses on the period up to 2020, it 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. In particular through our productivity reviews we compare the Council to others to see if services can be provided more efficiently without compromising levels of delivery. We shall be looking at replacing our technology with cheaper, Cloud based options and increasing the amount of self-service using the internet and social media.

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 21 February 2018:

- i) That the level of Council Tax for 2018/19 increases from £140.60 by £5 (3.56%) to £145.60 at Band D.
- (ii) That the net revenue budget for 2018/19 of £10.714m be approved (attached as Appendix A).
- (iii) That Special Expenses of £284,762 (attached as Appendix D) and a Band D charge of £24.60 be agreed in respect of the unparished area for 2018/19.
- (iv) That the capital programme for 2018/19 (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 and 2021/22 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 these two years.
- (vi) That the Minimum Revenue Provision (MRP) Statement set out in Appendix F be approved.
- (vii) That the prudential indicators and limits for 2017/18 to 2020/21 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, Cabinet, 23 November 2017

Wards affected: All

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Appendices:

- A:** Revenue Budget 2018-19
- B:** Major items of growth and savings
- C:** Grants to voluntary groups
- D:** Special charge summary
- Ei:** Capital expenditure programme
- Eii:** Capital programme new schemes
- F:** Minimum Revenue Provision
- G:** Prudential Indicators
- H:** New Homes Bonus
- I:** Reserves

Background Information

1 Introduction and background

- 1.1 This report sets out the Council's budget requirement for 2018/19 for capital and revenue expenditure. The budget is reviewed in the context of the projected outturn for 2017/18, 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 Britain's exit from the European Union, 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.
- 1.3 The current budget estimate is for the Council to deliver a surplus in 2018/19 and 2019/20 and we currently project deficits in the region of £1.6m in 2020/21 and £2.3m in 2021/22. We have made an assumption in these figures there will be a reduction of about £1.6m per annum in future business rate income to the Council as a result of changes to the business rates regime, but we await more information on the future government funding policy. These deficit projections are slightly better than forecast this time last year as a result of the work done on the 2018/19 budget.
- 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. The report also sets out the prudential indicators 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 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.
- 3.2 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 MTF5. The £445bn quantitative easing programme remains in place. The value of the pound decreased significantly following the June 2016 European Union referendum; and at the start of 2018 was still around 13% lower against the U.S. Dollar and the Euro. Conversely, the FTSE 100 share index has risen by around 24% since the referendum and ended 2017 at a record high of nearly 7,700.
- 3.3 Inflation has started to increase in recent months putting pressure on expenditure. In December 2017 it measured 4.1% under the Retail Price Index (RPI) and 3.0% under the Consumer Price Index (CPI). The impact from the cost of fuel is also slowly rising.
- 3.4 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 2018/19

- 3.5 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 £2m in 2018/19 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. The 2018/19 provisional settlement did not change this.

Revenue Budget 2017/18

- 3.6 Budget holders have monitored income and expenditure against the 2017/18 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 2017/18 at the end of month 8 is a surplus of around £360k. The surplus will be used to help fund the Future Horsham transformational changes in 2018/19.

4 Update on the Medium Term Financial Strategy projections

- 4.1 The medium term financial strategy has been updated for the projected outturn for 2017/18, the 2017 Autumn Budget, the December 2017 provisional settlement for 2018/19 and other known information. It assumes a Council Tax increase of £5 in 2018/19.

| Table 1: MTFS | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---------------|---------------|---------------|--------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Net expenditure | 11,862 | 10,714 | 10,535 | 11,440 | 12,350 |
| Funding: New homes bonus | 700 | 0 | 0 | 0 | 0 |
| Council Tax | 8,661 | 9,144 | 9,305 | 9,470 | 9,630 |
| Revenue Support Grant | 149 | 0 | 0 | 0 | 0 |
| Transitional / Negative RSG grant additional 'tariff' payment | 134 | 0 | (695) | 0 | 0 |
| Baseline Business Rates | 1,916 | 1,974 | 2,020 | 400 | 400 |
| Additional Business Rates | 200 | 200 | 200 | 0 | 50 |
| Payment to parishes | (10) | 0 | 0 | 0 | 0 |
| Collection Fund surplus/(deficit) | 182 | (49) | - | - | - |
| Total Funding | 11,932 | 11,269 | 10,830 | 9,870 | 10,080 |
| Net (Surplus) / Deficit | (70) | (555) | (295) | 1,570 | 2,270 |
| Forecast outturn | (360) | | | | |

- 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 | 3% per annum |
| Increase in salaries budget | 2% per annum |
| Contribution to pension fund | 1% in 2020/21 and thereafter |
| Increase in Council Tax | £5 in 2018/19 |
| Local Business Rates | 75% or 100% localisation of business rates triggering a significant re-baselining in 2020/21. |
| Increase in dwellings | Net of around 1,100 per year |
| New homes bonus - revenue | Revenue tapered down to zero in 2018/19. |

Interest rates

- 4.3 Economic forecasters are predicting a diverse range on inflation over the next three years, reflecting the uncertainty of exit from the European Union. The medium term financial strategy 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 that CPI inflation would peak at 3.25% and then fall back towards its own target of 2% reaching 2.5% by 2019.
- 4.4 Whilst income is also affected by inflation, inflation also increases our expenditure and 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.
- 4.5 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 two years 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.

- 4.6 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 medium term financial strategy. The positive side of the low Bank of England base rate is that the cost of borrowing is also relatively low at present.
- 4.7 Economic forecasters are again divided on when an upturn in interest rates may occur. At the moment, the medium term financial strategy includes only a small increase over the three year period which is in line with our treasury management advisors' opinion.

Salaries

- 4.8 Local government pay is negotiated nationally and the Council has no direct influence on the pay settlement. The proposed local government pay award of 2% in December 2017 covers increases in both 2018/19 and 2019/20. Given the potential prospect that inflationary pressures may drive further salary demands, further 2% pay increases in 2020/21 and 2021/22 have been budgeted as well. In expenditure terms, this equates to approximately £325k of additional expenditure per annum.

Pension Fund

- 4.9 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.
- 4.10 The Council's prudent assumption is that by the time of the next triennial revaluation at 31 March 2019, it is more likely than not that 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

- 4.11 The projected budgets also reflect increased additional costs in borrowing and principal repayment costs, Minimum Revenue Provision (MRP), resulting from decisions to increase the capital programme for projects such as the £12.3m Broadbridge Heath leisure centre and the £8m redevelopment of Piries Place car-park.

Council Tax

- 4.12 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. Ours remains the lowest Council Tax in West Sussex and is in the bottom quartile of all district councils. RPI is currently 4.1% at December 2017. The December 2017 provisional settlement raised the referendum threshold to the higher of 3% or £5 in 2018/19 for district councils in recognition of the higher inflationary rates of the moment. An inflationary increase in Council Tax, capped at

£5 is included in the 2018/19 budget. No further increases in Council Tax have yet been built into the medium term financial strategy projections through to 2021/22. Every 1% increase in Council tax increases income by approximately £95k.

Local Business Rates

- 4.13 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.
- 4.14 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 nine months of 2017/18, the 2017 rateable value list has declined by £220k. Redevelopments in Piries Place and Swan Walk shopping centre are also likely to result in a reduction in Rateable Value 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.
- 4.15 In comparison with other authorities the Council is comparatively less at risk from business rate losses 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 high level of appeals against the 2017 revaluation listing is expected.
- 4.16 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 modest increase in cost to the Council is expected as a result of these changes over the period of the MTFS.
- 4.17 In 2013, Government announced its intention towards 100% localisation of business rates by 2020. In the December 2017 provisional settlement, Government has indicated that business rates might be shared 75:25 starting in 2020/21. It also announced that the increase in local share will be fiscally neutral and will be matched by transfers of Revenue Support Grant, public health grant and other grants.
- 4.18 Business Rates localisation does not mean that this Council will get to keep 75% or 100% the £44m that it currently collects from Business Rates. The Council does not have many grants, other than a negative £695k RSG (payment to government) in 2019/20. So at district level, we interpret the 75% or 100% localisation to refer to the

local authorities' share of the level of growth (or fall) from the baseline that is likely to be reset in 2020/21.

- 4.19 No announcement has been made about the tier split that will accompany the increase in local share to 75%. We currently share the 50% in a district council 80:20 County Council split. That the transferred grants will largely be County Council grants possibly indicates that the increase in local share will go to the County in two-tier areas.
- 4.20 Until formal legislation has been put forward by Government, how this will happen and what impact it will have on local government remains uncertain. It is worth noting that the December 2017 provisional settlement confirmed that the Council was not successful with its 100% business rates pilot bid for 2018/19 with all the local authorities in West Sussex.
- 4.21 Furthermore, the 2017 Autumn Budget brought forward, to April 2018, the previous announcement in March 2016 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. Whilst Government has indicated that local authorities will be compensated for the difference up to 2020, it may have repercussions in any baselining that is likely to occur in 2020/21.
- 4.22 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 £695k negative RSG would result in Business Rate income of about £400k in 2020/21 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 medium term financial strategy.

Dwellings

- 4.23 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 economic uncertainty and the likelihood that a recession will start to bite towards the end of the decade.

New homes bonus

- 4.24 The New Homes Bonus (NHB) 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.
- 4.25 Originally a scheme based on payments for six years, the incentive has been sharpened. The December 2017 provisional settlement confirmed that the 'bonus' payable in 2018/19 is for only the following four financial years based on each (net) additional property using a standardised Council Tax Band D amount (£1,591). The

baseline the Council needs to exceed before any NHB payments are made remains at 0.4 % in 2018/19 of the band D equivalent properties in the district, but there was an emphasis in the provisional settlement on this potentially changing to a larger baseline in 2019/20. For this Council, this means that approximately 240 band D equivalent dwellings need to be built before any grant is received in 2018/19.

- 4.26 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 the 2020s. Government is yet to positively confirm that NHB will continue at all into the 2020s.
- 4.27 In anticipation of this reduction and potential loss in funding, the Council has tapered its revenue reliance on NHB so it does not include any NHB in revenue funding in 2018/19.
- 4.28 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 residents was considered in the budget papers in February 2017. The Council also approved the approach to use some of the NHB reserve in its medium term financial strategy in December 2017 to fully finance the Broadbridge Heath leisure centre and then to start to finance the planned annual £3m investment in property. £150k is also expected to be used for one-off grant funding towards the wider introduction of neighbourhood wardens across the district in 2018/19.
- 4.29 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.
- 4.30 The NHB reserve stood at £4.9m at 31 March 2017. The reserve is forecast to be £4.2m at the end of 2018/19 and £4m by 31 March 2020, after allowing for additional allocations to fully fund the new Broadbridge Heath leisure centre and then investment in property. See **Appendix H**. This is subject to the baseline changing in line with our assumptions that it will increase to 0.7% in 2019/20 and house building continuing at the same rate.

5 Draft Revenue Budget for 2018/19

- 5.1 The 2018/19 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 £10.714m. The detail of the revenue budget is shown in **Appendix A**. The budget will generate an estimated surplus of £0.55m which will be used which will be earmarked into a transformation reserve and used to fund further transformation required to help address the deficits from 2020.
- 5.3 The main items of growth and savings in the 2018/19 budget are detailed in **Appendix B**. Salaries remain a significant cost pressure of approximately £325k in 2018/19 relating to a 2% pay award to staff and a number of increments. The Council has tried to mitigate the increase by reducing posts and hours where possible.
- 5.4 Other significant items of growth include the increased revenue costs of the capital programme associated with borrowing, the year of culture programme to uplift

awareness of the arts and culture within the district, better promotion of the district, increased trade waste disposal costs, a reduction in planning volumes, and the higher costs associated with the redeveloped and larger Hop Oast depot, offset slightly by the closure of the Hurston Lane depot in Storrington.

- 5.5 With continuing pressures on the Council's budget and the on-going challenge this presents to future service delivery, in particular discretionary services, it is necessary that where possible services generate sufficient revenue to cover their cost of delivery.
- 5.6 The increase in green waste collection charge will take effect from 1 April 2018. The first bin collection will be £39 if paid online or by direct debit (or £41.50 if paid via the contact centre). The charge for additional green waste wheelie bin collections will be £29 per additional bin. This will result in approximately £110k additional income in the 2018/19 financial year.
- 5.7 The increase in parking tariffs will take effect from 1 April 2018. The detail is set out in a separate parking strategy paper within this Cabinet agenda. Horsham town centre parking tariffs have not been reviewed since 2013. An exercise was undertaken to compare current costs against local towns and assess demand within the current car parks. Price changes are proposed to improve the comparative costs between car parks and to address areas where demand outstrips availability. This will result in approximately £150k additional income in the 2018/19 year.
- 5.8 Swan Walk is recognised as a premium car park due to the location, but other car parks are similarly central and convenient and in the case of Denne Road, demand for spaces is larger than capacity. Table 3 sets out the key proposed parking tariffs changes. Sunday charges remain at £1.50 for the day.

Table 3 – car parking key proposed tariffs

| Car-park | Current tariff p/h* | Proposed tariff p/h* |
|-------------------------|----------------------------|-----------------------------|
| Swan Walk | £1.20 | £1.20 |
| Forum (*2 hour minimum) | £0.80 | £0.90 |
| London Road | £1.00 | £1.20 |
| Denne Road | £1.20 | £1.40 |

- 5.9 Rolling day tickets for Swan Walk and the Forum can be bought in multiples of 5 days parks up to 25 days and don't need to be used consecutively. Demand for these tickets has increased significantly and the proposed price (equivalent to a day ticket) will be £5.50 a day (currently £5) in the Swan Walk car park and £3.95 a day (currently £3.50) in the Forum car park. It is also proposed to increase annual season ticket prices across Swan Walk, the Forum, Talbot Lane, London Road and Dukes Square car parks too.
- 5.10 Other significant areas of revenue income include further income from the property investment fund largely following the July 2016 purchase of the Forum, continuing the diversification of income options within the treasury management investment strategy and the expansion of trade waste including the bulky bag scheme.
- 5.11 The Council has agreed to changes in the weekly waste collection service and the replacement of the side-loader waste collection vehicles with traditional rear-loader vehicles. Efficiencies include lower costs due to fewer and cheaper vehicles, a

reduction of fuel usage helped by more fuel efficient vehicles, lower repairs and maintenance and an increase in the recycling support grant. In the transitional year, savings of over £0.9m have been identified. Savings from this change are expected to increase in 2019/20. A key part of the decision to introduce changes to the weekly waste collection service is the expectation that it will improve the recycling rate over the 50% target.

- 5.12 In total, the additional income and savings generated exceeds the cost pressures and the net budget at £10.72m requirement is £1.1m lower than the £11.86m from the previous year.
- 5.13 The budget also includes £6k of grants to community partnerships and £229k 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 £284,762 are included in **Appendix D**. It is currently proposed that the Special Charge for 2018/19 is set at £24.60, and is sufficient to fund the proposed Special Expenses. The increase in the special charge was discussed with the Neighbourhood Councils in December 2017.

7 Council Tax for 2018/19

| 2017/18 £000 | | 2018/19 £000 |
|-----------------|---|-----------------|
| 11,862 | Net expenditure | 10,714 |
| 70 | Contribution to/(from) general reserves | 555 |
| 11,932 | | 11,269 |
| (149) | Revenue support grant | 0 |
| (134) | Transitional grant (one-off funding for two years) | 0 |
| 10 | <u>Less</u> parish share of Council Tax support grant | 0 |
| (4,815) | New homes bonus | (4,827) |
| 4,115 | <u>Less</u> contribution to new homes bonus reserve | 4,827 |
| (1,916) | Business Rates retention scheme baseline | (1,974) |
| (200) | Business Rates retention scheme net additional business rates | (200) |
| 8,844 | Expenditure to be financed from District Council Tax | 9,094 |
| (279) | <u>Less</u> funding by Special Charge taxpayers | (284) |
| (182) | <u>Less</u> share of estimated surplus (deficit) on Collection Fund | 49 |

| | | |
|---------|--|----------|
| 8,384 | Expenditure to be funded from District Council tax | 8,859 |
| 59,630 | Estimated band D equivalent properties | 60,846.5 |
| £140.60 | Council Tax at band D | £145.60 |
| £2.70 | Cost per week at band D | £2.80 |

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 2017/18 to 2018/19. The new programme for 2018/19 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 2018/19. Business cases are completed to ensure that decisions taken by the Council represent Value for Money.
- 8.3 Of the £24.3m capital programme proposed to be delivered in 2018/19, the majority has already been approved in preceding years such as the schemes on the Broadbridge Heath leisure centre and more recently, the redevelopment of Piries Place car-park. 2018/19 also includes a straight line profile £3m of the five year £15m property investment fund programme. There are also fourteen other new schemes totalling £1.8m of which a third has identified funding sources, with the remaining two-thirds 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 2017/18, 2018/19 and 2019/20 and introduces new indicators for 2020/21. 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 already been working on transformational projects 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 £1.5m of transformational efficiencies from self-service, changing ICT technology, contract reviews and redesign of business processes, the Council has also identified around £2m of new income sources and additional income expected from a growth in the number of users. A large amount of this has been incorporated into the 2018/19 budget.
- 9.3 Whilst there will be a cost in implementing the transformation for which £0.5m each year is envisaged in 2018/19 and 2019/20 it is anticipated that this will be funded by the surpluses in these two years. The transformation will help protect the level of general fund reserves as set out in **Appendix I**.
- 9.4 The Council agreed in October 2012 on a minimum level of general reserves of £6m. From 2020/21 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 result in surplus budgets through to 31 March 2020. Apart from funding this transformation, the Council should not need to dip into reserves in this period. Applying reserves in excess of the minimum level to finance the capital programme helps to reduce the MRP charge. Therefore the general fund balance is anticipated to be around the £6m mark at the end of 2019/20.

- 9.5 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. 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.
- 9.6 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.

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
 - economic uncertainty in Europe
 - 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 a new cinema 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 21 February 2018 will set the Council Tax for 2018/19.

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

- 12.1 The proposed budget, medium term financial strategy and assumptions and capital programme were considered by the Finance and Assets Policy Development and Advisory Group at its meeting on 8 January 2018 and the Group was supportive of the proposed strategy.
- 12.2 The Medium Term Financial Strategy was also recently reviewed at Cabinet on 23 November 2017 and approved by Council on 6 December 2017, which has allowed all Members the opportunity to discuss and review the medium term financial strategy proposals in advance of the 2018/19 budget setting process. The Leader, Deputy and Cabinet Members were also briefed on the proposed capital and revenue 2018/19 budgets on 7 December 2017 and 4 January 2018 respectively.

- 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 2018/19, 2019/20 or to reduce the budget deficits projected for 2020/21 and 2021/22. Therefore, not taking any action has been rejected.

14 Resource consequences

- 14.1 The Future Horsham changes will lead to a small reduction in the size of the workforce over the next two years. In September 2017, Horsham District Council employed 427 staff in total (462 in September 2016). This constituted 380 (413) full time equivalent (FTE) employees. The precise figure of further reductions, currently estimated at between 10 and 15 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.

15 Legal consequences

- 15.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their precepts, and authorities are required to take the Chief Financial Officer's report into account when setting the Council Tax.
- 15.2 The Council Tax in England and Wales is provided for and governed by the provisions of the Local Government Finance Act 1992. Within this Act, the Council is designated as a "Billing Authority", responsible for the billing, collection and enforcement of Council Tax.

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.

17 Other considerations

- 17.1 The Equality Act 2010 includes a public sector equality duty which requires Councils when exercising functions to have due regard to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act and to advance equality of opportunity and foster good relations between those who share a "protected characteristic and those who do not share that protected characteristic". When a Budget proposal has implications for people covered by the Equality Act 2010, the Council must take account of the Equality Duty and any particular impact on the protected group. There are no equality implications in regards to this proposed budget.

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