REPORT TO	DATE OF MEETING
Cabinet	20th February 2017

SOUTH RIBBLE BOROUGH COUNCIL

forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
2017/18 Budget and Medium Term Financial Strategy	Finance	Susan Guinness	

SUMMARY AND LINK TO CORPORATE PRIORITIES

This report sets out the Medium Term Financial Strategy (MTFS) and the information taken into consideration in determining the Council's financial planning detailing specifically the budget and Council Tax setting for 2017/18. The Medium Term Financial Strategy also recognises the corporate risks assessment processes and then the priorities set out in the Corporate Plan (both the subject of accompanying reports elsewhere on the agenda for this meeting). The financial contents of this report are aligned to The Treasury Strategy also on this agenda. The MTFS recognises the continued significant change and uncertainty surrounding core government grant funding and other local authority funding regimes.

RECOMMENDATIONS

Revenue Estimates

1. Cabinet consider for approval the council's revised estimates for 2016/17, the original estimate for 2017/18 and indicative original estimates for 2018/19 through to 2019/20, summarised at **Appendix A** to this report.

2. Cabinet consider for approval the Medium Term Financial Strategy (MTFS) to 2019/20 at **Appendix D** and the proposed budget efficiencies set out within the document to further improve efficiency/increase income and reduce the forecast budget deficit. Specifically the following:-

   - **Introducing Charges for collecting Garden Waste with effect from 1st April 2018.**
   - **Introducing a Charging Policy for the replacement of wheeled bins with effect from 1st April 2017.**
   - **Retracting the contribution made to the Police and Crime Commissioner for Police Community Support Officer in the sum of £0.044m.**

3. Cabinet endorse the assessment on the level of reserves for 2017/18 in **Appendix F**.

4. Cabinet recommend to Council the adjustment to General and Earmarked Reserves, whilst recognising that this figure may need to be revised when the Government announces the final Local Government Finance Settlement figures for 2017/18.

5. Subject to any amendments proposed in considering recommendations 1 to 4 above, Cabinet recommend a Borough Council Net Expenditure requirement for 2017/18 (including parish/town council precepts) for approval at the Council meeting on 1st March adequate to support the delivery of the MTFS.

6. The Chief Executive be authorised to deal with staffing issues arising from the report within the agreed budget and in accordance with the council's human resources policies. This will be done in consultation with the Leader, and in his absence the Deputy Leader and the Cabinet member with responsibility for Finance, and as appropriate other relevant Cabinet Members.

Council Tax

7. Subject to consideration of recommendations 1 to 6 above, Cabinet recommend the Borough Council's Band D equivalent Council Tax for 2017/18, for approval at the council meeting on 1st March 2017, remains at the same level as 2016/17 being £208.38.

8. Council determine the reduction in Council Tax Support applicable to working age claimants with effect from 1st April 2017.

Capital Programme and Budget

9. Cabinet approve investment in the Capital Programme as set out in **Appendix E** and its proposed funding.

Robustness of the Budget and MTFS Sustainability.

10. The Council are recommended to note the Statutory Finance Officer's comments and advice under Section 25 of the Local Government Act 2003 as set out in this report in **Appendix G** and have regard to it when considering the budget proposals for 2016/17.

DETAILS AND REASONING

This report sets out the Council's budget and Medium Term Financial Strategy (MTFS) to 2019/20 which includes the following:-

A. Key Budget and MTFS Messages

B. Forecasted Out-turn Position 2016/17 - The anticipated out-turn financial performance against the current year's approved original budget (2016/17).

C. 2017/18 MTFS – Forecasted Budget Projections to 2019/20 and Balancing the Budget over the Medium Term to 2019/20.

D. Proposed New Investment into the Council's Budget to fund the Improvement Plan.

E. Budget Consultation.

F. Capital Programme and Prudential Code.

G. Reserves.

H. Robustness of the Budget and MTFS Sustainability.

I. Council Tax.

A. **Key Budget and MTFS Messages**

The Council faces a challenge in achieving a balanced budget over the medium term due to a significant loss of income as part of the Local Government Finance Settlement and subsequent to the Spending Reviews in 2010 and 2015.

. A summary of the MTFS budget deficit is set out in the table below:

2017/18 Medium Term Financial Strategy (MTFS)	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Forecasted Budget (Surplus)/ Deficit	**888**	**3,002**	**3,386**
2017/18 MTFS Budget Efficiencies Achieved in 2017/18	(874)	(504)	(504)
2017/18 MTFS Budget Efficiencies Approval for 2018/19 – Charges for collection of Garden Waste	-	(450)	(540)
Proposed Corporate Improvement Plan Budget Provision and Expanding Capacity to deliver the MTFS	200	225	225
Estimated One-off set up costs of Garden Waste Collection Charges	86	-	-
Sub-total Forecasted Budget (Surplus)/ Deficit	**300**	**2,273**	**2,567**
Less One-off contributions from General Reserve	(300)	(261)	-
Total Forecasted Budget (Surplus)/ Deficit	**Balanced Budget**	**2,012**	**2,567**

Nonetheless this report sets out a Medium term Financial Strategy that seeks to meet that challenge and balance the budget to 2019/20.

The key messages of the 2017/18 Budget and MTFS are summarised below:

KEY 2017/18 BUDGET MESSAGE - Proposed Council Tax 2017/18

Following on from last year's freeze the Council is proposing to keep the Council Tax for 2017/18 at the same amount as 2016/17 for the seventh time in the last eight years.

KEY 2017/18 BUDGET MESSAGE - New Revenue and Capital Investment

NEW REVENUE INVESTMENT

£0.200m will be invested in the base budget on a recurring bases to support the delivery of the Corporate Improvement Plan by increasing capacity.

NEW CAPITAL INVESTMENT

The proposed Capital Programme to 2019/20 includes new investment into our assets in the sum of £0.330m to help safeguard a heritage asset in Worden Hall and to facilitate an increase in opportunities to generate income on a commercial basis within the Civic Centre's Banqueting Suite.

KEY 2017/18 BUDGET MESSAGE - 2017/18 MTFS Balanced Budget

The MTFS aims to deliver budget efficiency option to bridge the budget shortfall in its entirety by 2019/20.

KEY 2017/18 BUDGET MESSAGE - Focus on Income Generation

The MTFS objective is to take action and bridge the budget gap of £3.6m. To help safeguard front-line services 60% of budget efficiencies will be achieved by increasing income.

KEY 2017/18 BUDGET MESSAGE - Charging for collecting Garden Waste

The majority of Lancashire Councils have introduced a charge for the collection of Garden Waste which is an add-on non-statutory service that has been provided on a complimentary free of charge basis. South Ribble Council has been able to delay the introduction of the charge for another 12 months, however, an annual charge of £30.00 per year will be introduced from 1st April 2018.

KEY 2017/18 BUDGET MESSAGE – Reserves Strategy to Mitigate Financial Risk

The reserves strategy is to retain the General Reserve at a level that is no lower than £4.0m by the end of the three year period contained within the 2017/18 MTFS to 2019/20.

This aim will therefore be the first call on uncommitted in year budget variations and City Deal receipts over and above those needed to support approved borough schemes. This Reserves Strategy will be monitored on a monthly basis and reported to Governance Committee on a quarterly basis in the Budget Management Reports.

Changes to the Waste Collection Service

From April 2018 the Council will no longer receive waste cost share funding from LCC, currently £0.909m per year. Fundamental changes to the waste collection service will need to be undertaken and the Council proposes two key approaches to mitigate this substantial loss of income:

1. A charging policy for replacement wheeled bins to be introduced in April 2017
2. A subscription based garden waste collection service to be introduced in April 2018

For the purposes of forecasting potential receipts some assumptions have been made to the policies to be applied and also demand profiles, however, detailed reports on the proposed draft policies will be submitted for formal approval in due course. Many charging policies for the collection of Garden Waste has been introduce across Lancashire and demand rates have been proven to be substantially high. The additional income and savings that are forecast to be generated from these schemes are £0.030m in 2017/18, £0.510m in 2018/19 and £0.600m in 2019/20.

B. Forecasted Out-turn Position 2016/17

The budget for the current year was set at £13.231m (excluding parish precepts). As in previous years it incorporated substantial proposals to improve efficiency totalling £0.616m **(Appendix C)** to be achieved by reducing expenditure and generating additional income. It was anticipated at the time the budget was approved that no budgeted contribution would be required from the General Reserve to balance the budget. The projected out-turn for the current year is summarised in **Appendix B.** It is currently forecasted that the Council will achieve a net underspend against the 2016/17 budget in the sum of £0.245m. A summary of the key budget variations for 2016/17 is presented in **Appendix B** and are in line with those reported throughout the year to the Governance Committee. The main variations in expenditure are in respect of employee costs and with regard to income the receipt of additional Planning Fee income and recovery of Housing Benefit overpayments, offset by a reduction in the receipt of Public Realm funding and Building Control income.

During the budget setting process, which updates the budget forecasts for the forthcoming year and the 2017/18 Medium Term Financial Strategy (MTFS) through to 2019/20, the impact on the forecasted level of reserves has been assessed. The Authority's MTFS forecasts an increasing budget deficit position mainly caused by Central Government's continued changes to Local Government funding and the expiry of the waste cost sharing agreement with Lancashire County Council (LCC). Council funding will, over this Spending Review period, only consist of local sources of taxation after the total withdrawal of funding via Revenue Support Grant (RSG). To maintain appropriate funding levels the Council will be required to generate income by growing the relevant residential and business tax bases by developing growth in the Borough through the development of additional business premises and house building. This will also invariably place additional demands on services together with the changing needs profile of residents and the business community. Managing financial performance against the approved budget is key to ensuring the delivery of the Corporate Plan and improving the performance of the Council. Financial performance reporting is specifically considered by Cabinet Members and officers alongside the Corporate Plan data. The Governance and Scrutiny Committees provides member oversight and scrutiny of the Council's financial arrangements and performance with the Committee receiving regular financial monitoring reports during 2016/17.

B. 2017/18 Medium Term Financial Strategy to 2019/20

The Revenue Budget forecasts for 2017/18 and beyond are set out in **Appendix A**. The budget translates the priorities in the Corporate Plan into cash terms to deliver the Corporate Priorities that are as follows:-

Clean, Green and Safe
Strong South Ribble in the Heart of a Prosperous Lancashire
Strong and Healthy Communities
Efficient, Effective and Exceptional Council

The table below shows the forecasted Medium Term Financial Strategy budget shortfall with no increases applied to Council Tax. The updated budget gap to 2019/20 is anticipated to be £3.386m. The MTFS in **Appendix D** sets out options that can be adopted to bridge the budget deficit position and balance the budget over the medium to longer term, the overarching aim to achieve financial self-sufficiency. A summary of the MTFS budget deficit is set out in the table below:

2017/18 Medium Term Financial Strategy (MTFS)	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Forecasted Budget (Surplus)/ Deficit	**888**	**3,002**	**3,386**
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Less One-off contributions from General Reserve	(300)	(261)	-
Total Forecasted Budget (Surplus)/ Deficit	**Balanced Budget**	**2,012**	**2,567**

Elsewhere on this cabinet agenda is the Draft Corporate Improvement Plan. It has been initially estimated that a budget provision of £0.200m is required to implement the recommendations. This provision will be revised, however, following the approval of the Corporate Improvement Plan as the project is progressed when detailed restructure changes, and the resulting staffing implications, are known and been granted Council approval.

The Council is proposing to bridge this forecasted budget shortfall via a number of options. These are explained in detail with **Appendix D**.

The Council's budget and forecasted budget deficit over the MTFS period has been updated from the information provided within the Provisional Local Government Finance Settlement published on 15th December 2016. The reductions made to core funding by Central Government as part of the fundamental change being implemented as to how Local Government is funded, means that the Council needs to address a continued and increasing budget gap from 2017/18 onwards. The impact of the recent spending review on core funding is indeed significant as the transition is completed transforming core funding from direct grant funding received from Central Government to 100% sourced from local taxation only. The regime also contains a number of yet unknown elements, including the projectory of the new Tariff Adjustment and the trends within the business tax base post the national re-valuation exercise.

On an annual basis the Council has been faced with significant financial challenges and budgetary pressures in ensuring it is able to balance its budget both in the short and longer term. This is due to a number of external influencing factors:

- A continued pressured economic climate and the impact of Central Government Spending Reviews resulting in substantial reductions in core grant as the Government addresses the national public spending deficit.
- Increased uncertainty and risk with regard to Core Funding levels received from Central Government. The SR 2015 continued to implement fundamental changes in local government financing that removed all core funding to a system whereby the Council earns its own income through local taxation. A Tariff Adjustment charge from the Council to Central Government in the sum of £0.540m has also been introduced to replace the reductions in RSG post it reaching a zero level. There is currently no detailed information in respect of this new form of income reduction with regard to its expected profile or scale.
- Other income streams have also undergone revision and reduced as a result. NHB allocations have been significantly reduced and the business rates tax base has been fundamentally reviewed and re-valued downwards by the Valuation Office Agency (VOA).

It is also important to note that the budget forecasts contain a number of key budget assumptions. Estimates have been made taking into account the financial impact of future changes, for example, pay-awards and levels of fees and charges income. Key assumptions made in preparing the estimates are set out at **Appendix H** including:-

- Changes to be applied to the Provisional Local Government Finance Settlement 2017/18 within the Final Local Government Settlement due to be published in February 2017.
- New Homes Bonus grant and the outcome of the budget consultation to the City Deal Agreement.
- Business Rates Retention (BRR) and the resulting trends in respect of the rating list re-valuation including the impact on the City Deal Agreement.
- The Capital Programme and its revenue implications.
- Implementation costs of the Draft Corporate Improvement Plan.
- The need to maintain an adequate level of reserves.
- Impact of known budget decisions taken by partner organisations.
- Issues identified through the preparation of the draft risk register.

As in previous years, the need to deliver substantial year on year efficiencies is embedded into the Council's Medium Term Financial Strategy. For 2017/18 this ambitious programme continues and is set out in the report in **Appendix D**.

Balancing the Budget in 2017/18	Budget Plan 2017/18 £m	Recurring into Future Years £m
Forecast Budget Deficit/(Surplus) 2017/18	**0.888**	**3.386**
Stage One Review of Earmarked Reserves	(0.700)	(0.300)
Contribution from General Reserve	(0.300)	-
Increasing Business Rates Retention Income	(0.100)	(0.100)
Charging for Replacement Waste Collection Bins	(0.030)	(0.060)
Contribution Paid to The Police and Crime Commissioner for Police Community Support Officers	(0.044)	(0.044)
Budget Deficit/(Surplus) 2017/18 MTFS before Investment	**(0.286)**	**2.882**
Investment in the Corporate Improvement Plan and Expanding Capacity to deliver the MTFS	**0.200**	**0.225**
Estimated One-off set up costs of Garden Waste Collection Charges	**0.086**	**-**
Budget Deficit/(Surplus) 2017/18 MTFS	**Balanced Budget**	**3.107**

IMPACT OF FUNDING CHANGES ON THE MTFS

(1) Provisional Local Government Finance Settlement and RSG

The 2017/18 provisional finance settlement represents the fourth years in which the Business Rates Retention (BRR) scheme, introduced in 2013/14, is the principal form of external local government funding. As in previous years, the provisional settlement provides authorities with a combination of provisional grant allocations and their baseline figures within the BRR scheme.

The provisional figures are expected to be confirmed in February 2017 (within the final settlement announcement). The 2017/18 announcement includes local authority allocations up to 2019/20.

The Settlement Funding Assessment amount consists of three funding streams:
(i) Business Rates Retention
(ii) Revenue Support Grant
(iii) Tariff/Top Up adjustment amounts (2019/20 only)

The table below illustrates how the Formula Grant has reduced since 2010/11 and the Comprehensive Spending Review in 2015.

Core funding received since CSR 2010 to 2015/16

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Business Rates	6.579	4.115	4.555	New Business Rates Retention Scheme introduced		
Revenue Support Grant	0.955	1.272	0.092			
Formula Grant	-	-	-	4.117	4.106	3.499
Council Tax Support Grant	-	-	-	*0.767	-	-
Re-basing of 2010/12 Grant	**(1.106)					
Sub Total	**6.428**	**5.387**	**4.647**	**4.884**	**4.106**	**3.499**
Council Tax Freeze Compensation	-	0.189	0.189	0.268	0.343	0.343
Homelessness Prevention Grant	-	0.057	0.057	0.057	0.056	0.056
Total Formula Grant	**6.428**	**5.633**	**4.893**	**5.209**	**4.505**	**3.898**

** The Council Tax Support Grant is rolled into and included in the Formula Grant settlement in 2014/15. Therefore it cannot be separately identified and tracked in terms of value.*
*** 2010/11 formula grant re-based mainly due to transfer of Concessionary Travel to Lancashire County Council.*

Core funding to be received post the SR 2015 to 2019/20

The provisional settlement for 2017/18 contains a reduction in RSG of £0.661m in 2017/18 and then a final reduction of £0.350m in 2018/19 which means that RSG has been withdrawn in its entirety as a source of funding for the Council plus the tariff payment of £0.494m to Central Government in 2019/20. This equates to a total reduction in four years of £1.501m.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
RSG received *from* Central Government	1.007	0.346	nil	nil
Baseline Funding Level	2.147	2.191	2.262	2.342
Tariff Adjustment paid *to* Central Government	-	-	-	(0.494)
Total Funding Level	**3.154**	**2.537**	**2.262**	**1.848**

(2) Business Rates Retention (BRR)

2013/14 was the first year with regard to the implementation of the Business Rates Retention funding regime. Local authorities are now allowed to retain a proportion of any additional income generated from growing the tax base for businesses in their area. Within these new arrangements it is important to note that although we continue to collect the business rates for this area, the Government still continues to determine the annual rate poundage and the Valuation Office Agency (VOA) will remain responsible for setting the rateable value for business premises.

Although this scheme means that some of the financial benefit of net tax base growth is realised by the authority it also results in some of the risks of collection also transferring to local authorities. Also due to the inflationary arrangements built into the baseline funding level calculation within the scheme the tax base needs to be grown on an annual basis just to maintain existing funding levels. Growth over and above the incremental increase required as part of the Local Government Finance Settlement may result in additional income being generated, however, more than one of the variable factors may fluctuate during the year that can directly impact on the level of funding actually received. These are:-

(a) net movement in the business rate yield (determined by Central Government),
(b) losses on collection (impacted upon by the national economic environment), and
(c) reductions due to re-valuations and appeals (determined by the VOA).

The scheme allows for the opportunity for the Council to benefit financially from achieving growth in the tax base. The national scheme also allows groups of Councils to form a 'Pooling Agreement' whereby the group is treated as one authority for the purposes of calculating the Levy payments and Safety Net receipts. By being part of the Lancashire Pool in 2017/18, South Ribble will no longer be required to pay over to Central Government a 50% Levy Payments on new growth achieved. The benefits of entering into the Pool have contributed to the Council's balanced budget position.

Taking into account the current degree of uncertainty caused by these external factors, an estimate of circa. £0.700m has been included in the forward estimates in the proposed MTFS over the longer term to reflect the impact of the Pooling Agreement. This assumes that the Pooling Agreement continues into future years and therefore should the Pooling Agreement either be dissolved or withdrawn by Central Government, this will in effect increase the forecasted budget deficit in future years.

(3) Council Tax Support Scheme

2013/14 also saw the introduction of the Council Tax Support Scheme which replaced Council Tax Benefit with a localised Council Tax Support charge in response to reductions in government grant subsidy. South Ribble Borough Council resolved in 2012 to recover the reduction in Central Government funding by reducing the level of entitlement to Council Tax Support for working age claimants. In 2016/17 this meant a reduction of £3.50 per week. The Cabinet agreed it's Council Tax Support Scheme, to take effect from 2017/18, at the meeting on 26th October 2016. Once the council tax levels for the other precepting authorities have been determined for 2017/18 the Council will be required on 1st March 2017 to determine the reduction in Council Tax support applicable to working age claimants from 1st April 2017.

(4) New Homes Bonus (NHB) Grant

The Government introduced NHB in 2011/12 as an incentive for house building across the country. The Department for Communities and Local Government (DCLG) reduced the national RSG allocations to pay for the New Homes Bonus Scheme, the remaining RSG total balance now reducing to zero over the course of SR 2015. The remaining NHB pot is currently based on the average national Band D council tax for each new property built, with an additional top-up payable for affordable properties constructed. The funding is not ring-fenced and therefore can be used for wider service provision or specific amenities needed to support any new development.

The New Homes Bonus scheme was subject to a consultation paper in December 2015. The 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme have been announced as part of the provisional finance settlement (previously these figures were only indicative). The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum. This change also has an impact on City Deal (CD) and the implications are currently being assessed by the CD partners. This is set out in more detail in the City Deal Summary in **Appendix I**. The total NHB receipts for 2017/18 are £0.237m as according to the new NHB regime for a four year period, however £0.195m will be invested in the City Deal arrangements referred to within this report. The remaining balance of £0.042m will be retained by the Council.

It is important to note that, whilst the annual NHB allocations are made to councils as aggregated payments, the NHB allocations for each year are separate and discrete. This becomes important for financial planning as each discrete annual allocation is payable for a fixed number of years only and therefore this introduces an element of risk in relying on this to fund recurring expenditure. No assumptions have been made in the Medium Term Financial Strategy in relation to potential NHB receipts for NHB years 2018/19 onwards and the table below sets out all NHB receipts to be received to 2018/19 based on NHB years up to and including 2017/18, as per the Government allocations.

	2011/12 Year 1 £000	2012/13 Year 2 £000	2013/14 Year 3 £000	2014/15 Year 4 £000	2015/16 Year 5 £000	2016/17 Year 6 £000	2017/18 Year 7 £000	2018/19 Year 8 £000
NHB 2011/12	165	165	165	165	165	165		
NHB 2012/13		170	170	170	170	170	0*	
NHB 2013/14			177	177	177	177	177	0*
NHB 2013/14 adj			17					
NHB 2014/15				114	114	114	114	0**
NHB 2015/16					279	277	273	273
NHB 2016/17						75	75	75
NHB 2017/18							42	42
Total Receipts	**165**	**335**	**529**	**626**	**905**	**978**	**681**	**390**

**Reduction from 6 to 5 years under new scheme*
***Reduction from 6 to 4 years under new scheme*

The combined reduction in NHB income to the Council as a result of the reduction in years and the growth threshold, compared to the previous scheme are as follows:-

Reduced NHB Funding				
2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
170	**291**	**386**	**349**	**118**

C. Proposed Improvement Plan Investment in the Budget

KEY 2017/18 BUDGET MESSAGE - New Revenue Investment

£0.200m will be invested in the base budget on a recurring bases to support the delivery of the Corporate Improvement Plan by increasing capacity.

At its meeting on 6th December 2016, Cabinet approved the action plan arising from the Scrutiny Review of Licensing and the development of the Council's Annual Governance Statement (AGS), and endorsed the development of a more detailed action plan incorporating key milestones and targets for monitoring both by the Employment Panel (who are responsible for overseeing the performance of the Interim Chief Executive) and by Scrutiny Committee, Governance Committee and Cabinet as appropriate. Detailed actions have now been developed and incorporated into an overarching Improvement Plan for the Council.

The Improvement Plan identifies specific milestones to be achieved in relation to each of the actions, and identifies the relevant lead member and member of the Council's Senior Management Team who will lead in relation to the actions. An update on progress to date is shown by the Red/Amber/Green (RAG) rating included in the plan. The Improvement Plan will be monitored monthly by the new Programme Board (consisting of the Council's Senior Management Team) with updates being reported to Cabinet, Scrutiny Committee and Governance Committee every quarter and to the Employment Panel as appropriate.

Key risks are included in the Corporate Risk Register, and these will be monitored on a monthly basis by the Programme Board in between the quarterly reviews which will be undertaken alongside the quarterly reviews of the Corporate Plan. The Improvement Plan directly underpins the Council's Corporate Priority set out in the Corporate Plan to be efficient, effective and exceptional council. The actions aim to improve the Governance and overall performance of the Council. It is envisaged that investment is need to increase capacity to deliver the action effectively. Therefore a proposed initial recurring investment of £0.200m is included within this budget. The full draft Corporate Improvement Plan is reported in detail elsewhere on this agenda. A further £0.025m has been added in 2018/19 and 2019/20 to provide administration support for the introduction of Charging for Garden Waste with effect from 01/04/18.

D. Budget Consultation

The Council's Corporate Plan has been refreshed and is proposed for approval by the Council to ensure it remains fit for purpose and includes all the key actions and measures to ensure the Council achieves its vision and priorities and implements the Corporate Improvement Plan. Feedback from our residents, councillors, employees, Cabinet and the Scrutiny Committee has been used in re-freshing the Corporate Plan. The budget proposals included within this report are designed to support those corporate priorities. An update of the Corporate Plan is being considered on this Cabinet agenda. The budget proposals do, however, recognise the financial constraints that have now been imposed on all local authorities. The budget proposals will be made available for local people and businesses to comment on and any feedback received will be taken into consideration before the budget is finalised at the Council meeting on 1st March 2017.

E. Capital Programme and Prudential Code

The Council's Capital Programme forms part of the Council's overall financial strategy to deliver some of its key objectives contained in the Corporate Plan. The Capital Programme has to be affordable and based upon prudence. The current local government financial position and the need to make revenue savings will impact on the Council's ability to finance further capital spending unless additional funding is secured from external sources. The Capital Programme has been constructed based upon the following strategic objectives.

- The resources available will be targeted at areas that deliver corporate priorities.
- Borrowing will be managed to ensure the future impact on revenue is minimised.
- As part of their capital expenditure strategy the Council will consider the purchase and/or development of assets to generate a sustainable revenue stream to counteract against the risk of future reductions in grant funding and year to year fluctuations.
- The Council will continue to invest in its own infrastructure reviewing the Asset Management Plan and Strategy to ensure levels of investment are appropriate.

As a consequence of adopting the strategy outlined above and incorporating the proposed new budget growth investments, the Council proposes to invest £9.067m over the MTFS period. The programme will be funded from a variety of sources, which is consistent with the Council's corporate priorities.

The following details of the Capital Programme are set out within the report at **Appendix E**:

- 2016/17 Capital Programme Out-turn including financing.
- Proposed 2017/18 Capital Programme to 2019/20 including proposed financing.
- Summary of proposed project amendments made.
- City Deal (cross reference to **Appendix I)**.
- Overview of new budget challenge process for the 2017/18 Capital programme setting round.

F. Reserves

The following details in respect of the General Reserve balance and Earmarked Reserves are set out within the report at **Appendix F**:

- Proposed 2017/18 Use of General Reserve
- Proposed 2017/18 Use of Earmarked Reserves
- Strategic Review of Reserves and the MTFS to 2019/20
- Capital Reserves

G. Robustness of the Budget and MTFS Sustainability

The Local Government Act 2003 requires the Chief Financial Officer (s151 Officer) to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations. Spending plans ultimately impact on the level of council tax although, as explained below, the extent of any increase is also externally influenced by the provisions within the Localism Act (council tax referendum requirements).

The Medium Term Financial Strategy in **Appendix D** assesses the affordability of revenue and capital plans and the adequacy of reserves. As with all plans the further the estimate is in the future there is a higher risk with regard to its accuracy. This is now additionally problematic given the variable factors, uncertainty and increasing risk financial profile when dealing with the variable funding regimes and the unknown outcomes of the future settlements.

As with previous years' budget reports, the council's financial strategy continues to be aimed at addressing the longer term sustainability issues surrounding capital investment and the contributions that may be required to earmarked reserves. The Chief Finance Officer's Report is attached in **Appendix G**.

H. Council Tax

KEY 2017/18 BUDGET MESSAGE - Proposed Council Tax 2017/18

Following on from last year's freeze the Council is proposing to keep the Council Tax for 2017/18 at the same amount as 2016/17 for the seventh time in the last eight years.

The following table provides details of the Council Tax collected by the Borough Council, in its role as billing authority. The table also shows the component parts of the current year's council tax payable by the occupiers of a Band D property in the Borough together with the dates on which each of the precepting authorities are currently expected to agree their budgets and council tax for 2017/18.

Precepting Authority	**2017/18 Band D Equivalent £**	**Meeting Date**
Police & Crime Commissioner	tbc	tbc
Lancashire Combined Fire Authority	tbc	20th February 2017
Lancashire County Council	1,221.74	9th February 2017
South Ribble Borough Council	208.38	1st March 2017
Total	**tbc**	

Residents living in a property located within the boundaries of a Parish/Town Council will have to pay an additional amount of council tax (i.e. added to the amounts in the previous table) to pay for the services of the respective Parish/Town Council. The Parish/Town Councils have each agreed and confirmed their precepts. The table below compares each of the precepts notified for 2017/18 with that for the current year.

	2016/17		**2017/18**	
Parish/ Town Council	**Precept** £	**Band D Equivalent** £	**Precept** £	**Band D Equivalent** £
Farington	50,000	**23.45**	50,000	**23.00**
Hutton	22,000	**24.82**	22,000	**24.75**
Longton	83,200	**27.01**	73,200	**23.72**
Penwortham	127,600	**17.18**	170,000	**22.64**
Much Hoole	14,963	**21.55**	52,969	**75.65**
Little Hoole	17,500	**21.97**	22,500	**28.04**
Samlesbury & Cuerdale	5,000	**10.28**	7,000	**14.12**
Total	**320,263**		**397,669**	

Council Tax - South Ribble Borough Council

The current Band D equivalent tax for the council, excluding parish/town council precepts is £208.38. Council Tax increases in recent years have been held below inflation with no increase being applied in 2010/11, 2011/12, 2013/14, 2014/15, 2015/16 and 2016/17. Subject to Government rules regarding a Council Tax referendum, the council has discretion over the level of Council Tax it needs to levy to deliver local services. However, Council Tax should not be levied unnecessarily and be justifiable in terms of the services it is being used to fund. With these caveats in mind, the Cabinet is required to determine the 2017/18 Band D equivalent Council Tax that will be recommended to the Council meeting scheduled for 1st March 2017.

The net expenditure of the Borough Council, excluding parish/town Council precepts and after contributions to/from reserves has to be met from funding from the Formula Grant, with the balance being met by Council Tax. The Borough Council's Council Tax base for 2017/18 has been determined as 35,287.6 Band D equivalent properties (2016/17 - 34,815.6). This increase reflects an increase in both newly occupied properties and empty homes being brought back into use.

In-year collection rates for Council Tax are continuing to hold up and do not appear to have been adversely affected beyond that predicted in previous years. Therefore in calculating the tax base applicable for 2017/18 the allowance for estimated losses on collection has been maintained at 2.00%. This also reflects the significant impact of continued backdated re-bandings of properties. However, every effort will continue to be made to maximise collection rates and minimise any amounts that may ultimately prove to be unrecoverable.

In determining the Council Tax level legislation also requires the Council to take into account any surplus or deficit on the Collection Fund. The requisite calculations have been finalised and there is a forecast surplus on the Collection fund of £1,079,761. The Council's share of this surplus amounts to £145,012, which has been taken into account in determining the revenue budget for 2017/18 detailed in **Appendix A**.

Council Tax Increase - Limitations

The Localism Act introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as being excessive. This can apply to South Ribble Borough Council, Lancashire County Council, Fire, the Police and Crime Commissioner or Town and Parish councils. In all such cases, South Ribble Borough Council has to make arrangements to hold a local referendum for residents. Costs can be recovered from the relevant precepting authority. Draft thresholds have been published for the 2017-18 financial year. The Government proposes to set a threshold of 5% for upper-tier local authorities with social care responsibilities, and for district councils, increases of less than 2% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2016/17 can be made without triggering a referendum.

Appendices attached to this report		**Description**
Appendix	**Title**	
A	2017/18 General Fund Summary and MTFS	Latest revised estimate for the current year and future years' estimates to 2019/20.
B	2016/17 Revised Estimate	The 2016/17 Projected Out-turn summary of key budget variations to the 2016/17 approved Original Budget for 2016/17 as included in Appendix A.
C	2016/17 Budget Efficiency Programme	Actual performance in achieving the efficiency targets incorporated into budget forecasts in 2016/17.
D	2017/18 Medium Term Financial Strategy	Proposed financial plan to bridge the forecasted budget shortfall to 2019/20.
E	2017/18 Capital Programme Estimates and Financing	Summary of the projected expenditure on Capital projects and how these will be financed.
F	General Reserve and Earmarked Reserves	Detailed breakdown of the General Balance Reserve and Earmarked Reserves and forecasts to 2019/20.
G	Report of the Chief Finance Officer (s151)	Comments of the Chief Finance Officer (s151) with regard to the 2017/18 Budget and MTFS.
H	Revenue Budget – Key Budget Assumptions	Key assumptions used in compiling the revenue budget forecasts within the MTFS.
I	City Deal 2017/18 Budget Implications Summary	How City Deal impacts on the budget and 2017/18 MTFS.
J	Key Risks to the Medium Term Financial Strategy	Potential risks to the MTFS and the mitigating action(s) to be monitored during the year.

WIDER IMPLICATIONS - In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. A risk assessment has also been carried out.

The table shows the implications in respect of each of these.

FINANCIAL	The financial implications relating to this report are set out in the body of this report and the Report of the Chief Finance Officer (s151) is attached at **Appendix G**.
LEGAL	The budget has been set with reference to all relevant legal requirements set out in the Local Government Finance Act 1992 and all other related legislation, statutory instruments and regulations Cabinet is under a legal duty to prepare and agree budget proposals which then must be referred to full Council for their consideration. Members will fully appreciate that there is a legal duty to set a lawful budget in time. For all practical purposes Council needs to set this budget at its meeting on the 1st of March. Members jointly and severally (individually and collectively) have a fiduciary duty to Council Tax payers. This means they have a duty to facilitate the setting of a lawful budget. Failure to set a lawful budget may result in legal challenge by way of judicial review proceedings. More generally any such failure could result in loss of income, significant additional administrative costs as well as reputational damage. There is a further risk that a failure to set a lawful budget in a timely fashion could result in intervention from the Secretary of State. It has to be acknowledged that it is less than ideal that the budget papers in their final form should have been published at such a late date. Every effort must be made in future years to avoid this situation.
RISK	As acknowledged throughout the report the Council is exposed to increasing and significant financial risk. Delivery of the MTFS is paramount in delivering a balanced budget over the medium to longer term and mitigates this risk. For further details please refer to Appendices G and J.
OTHER (see below)	The budget proposals, if agreed, may result in a reduction in employee costs, which will be addressed in accordance with the Council's suite of human resource policies. Close liaison with the Trade Unions and employees has been and will continue to be on-going. An equality impact is required to be carried out on the budget proposals contained in this report for 2017/18, taking into account the requirements of The Equality Act 2010, and the specific public sector provisions.

Asset Management	*Corporate Plans and Policies*	*Efficiency Savings*	*Equality, Diversity and Community Cohesion*
Freedom of Information/ Data Protection	*Health and Safety*	*Human Rights Act 1998*	*Implementing Electronic Government*
Respect Agenda	*Staffing*	*Sustainability*	*Training and Development*

BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement – DCLG December 2016
Financial Strategy, Budget and Council Tax 2016/17 - Cabinet 10th February 2016
Treasury Management Strategy for 2016/17 - Cabinet 10th February 2016
Proposed Corporate Plan and Risk Register – Cabinet 20th February 2017
Proposed Corporate Improvement Plan – Cabinet 20th February 2017
Proposed Treasury Management Strategy 2017/18 - Cabinet 20th February 2017
Proposed Pay Policy 2017/18 – Cabinet 20th February 2017

2017/18 GENERAL FUND SUMMARY and MTFS
REVENUE ESTIMATES 2016/17 TO 2019/20

Portfolio	ORIGINAL 2016/17 £000	REVISED 2016/17 £000	FORECAST 2017/18 £000	FORECAST 2018/19 £000	FORECAST 2019/20 £000
Leader	1,508	1,610	1,621	1,554	1,685
Finance	320	310	862	880	901
Corporate Support and Assets	5,345	4,915	5,277	5,279	5,414
Neighbourhoods & Streetscene	4,071	4,759	4,887	5,850	5,921
Public Health, Safety & Wellbeing	481	486	549	470	478
Regeneration and Leisure	1,085	2,304	1,485	1,488	1,409
Strategic Planning and Housing	(9)	(35)	221	181	126
TOTAL	**12,801**	**14,349**	**14,902**	**15,702**	**15,934**
Efficiency targets	(550)	0	(261)	(261)	(261)
Investment Interest	(165)	(188)	(69)	(55)	(96)
Interest Payable	120	120	120	120	120
Depreciation	(1,946)	(2,940)	(2,940)	(2,940)	(2,940)
Provision for Repayment of Debt	1,033	1,024	1,018	1,069	1,070
Revenue Contributions to Capital	0	12	0	0	0
Revenue funded from capital	(465)	(607)	(607)	(607)	(607)
Cont'n (from)/to Earmarked Reserves	2,701	2,528	1,509	1,420	909
Cont'n (from)/to General Fund Balances	0	0	0	0	0
BOROUGH COUNCIL BUDGET REQUIREMENT	**13,529**	**14,298**	**13,672**	**14,448**	**14,129**
Parish/Town Council Precepts	320	320	398	398	398
TOTAL BUDGET REQUIREMENT	**13,849**	**14,618**	**14,070**	**14,846**	**14,527**
FUNDED BY:					
New Homes Bonus	(973)	(1,744)	(681)	(390)	(117)
Revenue Support Grant/Tariff adj.	(1,007)	(1,007)	(346)	0	490
Transition Grant	0	(92)	(92)	0	0
Business Rates Retention	(4,003)	(4,000)	(3,916)	(3,643)	(3,643)
Business Rates Retention - Collection Fund Surplus	(300)	(300)	(251)	0	0
Parish Precepts	(320)	(320)	(398)	(398)	(398)
Council Tax	(7,255)	(7,255)	(7,353)	(7,413)	(7,473)
Council Tax - Collection fund balances	9	(145)	(145)	0	0
TOTAL FUNDING	**(13,849)**	**(14,863)**	**(13,182)**	**(11,844)**	**(11,141)**
Forecast Budget (Surplus)/Deficit	**0**	**(245)**	**888**	**3,002**	**3,386**
2017/18 Approved MTFS in 2017/18			**(874)**	**(504)**	**(504)**
2017/18 Approved MTFS in 2018/19 – Garden Waste Charges			**-**	**(450)**	**(540)**
Investment in the Corporate Improvement Plan			**200**	**200**	**200**
Expanding Capacity and one-off costs to deliver the 2017/18 MTFS to 2019/20			**86**	**25**	**25**
Cont’n from General Reserve Balances			**(300)**	**(261)**	**-**
Forecast Budget (Surplus)/Deficit	**0**	**(245)**	**0**	**2,012**	**2,567**
2017/18 MTFS Forecasted Delivery Profile to 2019				**(2,012)**	**(2,567)**

2016/17 REVISED ESTIMATE
SUMMARY OF KEY
VARIANCES TO ORIGINAL ESTIMATE

Appendix B

Details	Projected Outturn Variances Under / (Over) spend	
	£000	**£000**
Expenditure		
Employee Costs – Capacity Support		*(70)
Employee Related Costs		(38)
Premises		30
Transport		22
Supplies and services		(21)
Licensing additional costs		*(94)
Sub Total - Expenditure		**(171)**
**Approved Supplementary estimates*		
Income		
Building Control fees deficit		(43)
Housing Benefit/Council Tax Support net over-recovery		106
Car Parking income		(19)
Consideration for release of restricted covenant		21
Council Tax support admin grant		21
Council Tax court costs recovered		(40)
Interest on Investments		23
Investment property income		28
Land Charges income		(12)
Planning application fees		280
Police election & referendum funding		18
Public Realm funding shortfall		(65)
Sub Total - Income		**318**
Other Minor Variations		12
Carry forward of underspend to 2017/18		(61)
Budget Efficiency Programme		(8)
Business Rates Retention	30	
Transfer to BRR Equalisation Reserve	(30)	0
Projected Out-turn Budget Variation – General Fund		**90**
Collection Fund adjustment in 2016/17 Final Accounts		155
Projected Out-turn Budget Variation – incl. Collection Fund Adj.		**245**
Effect on Reserves:		
Transfer to/(from) General Reserves – Original Forecast		0
Transfer to General Reserve – Projected Out-turn Variation		(245)
FORECAST MOVEMENT		**(245)**

2016/17 Budget Efficiency Programme

Budget Efficiency Targets	Budget Efficiency Savings Targets (FY) 2016/17 £000	Projected Outturn 2016/17 £000	Target Exceeded/ (Shortfall) 2016/17 £000	Recurring Budget Efficiency Savings £000
Business Transformation:				
Neighbourhood, Environment & Asset Management Directorate	(150)	-	*(150)	-
Print and Post Review	(30)	(55)	25	(85)
Shared Assurance Services Restructure	(20)	(20)	-	(20)
Review of Vacant Posts	(216)	(16)	**(200)	(16)
Base Budget Review	(100)	(80)	*(20)	(80)
Sub-Total	**(516)**	**(171)**	**(345)**	**(201)**
Staff Turnover Savings	(100)	(437)	337	(100) annual target
Total – Full year	**(616)**	**(608)**	**(8)**	**(301)**

* to be delivered in 2017/18
** will not be delivered in 2016/17 or 2017/18

Appendix D

2017/18 Medium Term Financial Strategy

FOREWORD AND INTRODUCTION

The aim of this strategy is to set out in financial terms the impact of the Councils existing policy commitments and the likely resources available to meet them to support the Council's Corporate Plan. This Medium Term Financial Strategy (MTFS) plans a route by which the budget gap could be bridged in order to deliver the Corporate Plan. For a number of successive years local authorities have faced fundamental changes to funding and a period of significant budget reductions and challenges. The Government's Spending Review 2015 was announced in 2015/16 closely followed by the Local Government Finance Settlement covering four years from 2016/17 to 2019/20. The settlement published significant reductions to the Revenue Support Grant (RSG) during the MTFS period to the point that it is completely withdrawn for 2018/19. In 2019/20 the direction of the grant reverses and the Council becomes required to make a grant payment to Central Government in the form of a 'Tariff Adjustment.' It is not known how the 'Tariff Adjustment' will be applied thereafter and therefore the scale of risk cannot be accurately quantified at this stage. The publication also launched the consultation process titled 'Sharpening the Incentive of NHB' in respect of proposals to reduce the value of funds to be awarded via the NHB core grant distribution scheme. This has now been done and implemented within the settlement for 2017/18 as detailed in this report.

In summary, the structure of core grant income continues to be transformed and by the end of the MTFS period is comprised of only locally generated sources, that is, Council Tax and Business Rates Retention (BRR) reduced by the offsetting 'Tariff Adjustment' payment. There will also be the potential qualification for NHB dependent on the delivery of new homes in the borough although this is due to be accelerated by the City Deal agreement. BRR income is particularly vulnerable to annual and significant fluctuations which increases the Council's exposure to financial risk with the regime's parameters being externally driven and outwith the influence of the Council. Therefore the Council's MTFS must demonstrate resilience and flexibility in order to respond to core income structural changes and variables such as tax base decline resulting from the appeals process and the possible negative impact from re-valuation rounds and downward national economic performance.

Despite these financial challenges the administration's financial aims are to support and invest in the corporate priorities, which are:

Clean, Green and Safe
Strong South Ribble in the Heart of a Prosperous Lancashire
Strong and Healthy Communities
Efficient, Effective and Exceptional Council

FINANCIAL OUTLOOK AND KEY BUDGET CHALLENGES

This section sets out the financial challenges facing the Council in delivering its corporate priorities within a balanced and affordable budget.

The budget forecast in **Appendix A** attached identifies that by 2019/20 the unadjusted budget deficit will be in the region of £3.4m. All forecasts are built upon a number of assumptions, which are based upon the best information available at this time. The main reasons for an increasing budget gap being the expiry of the Cost Sharing Agreement with LCC £0.909m, the reduction of core funding which total £1.300m since 2016/17 and changes applied to the NHB grant allocation system circa. £0.600m.

Budget (Headroom)/Gap 2017/18 to 2019/20

Year	Budget (Headroom)/Gap £m	Cumulative Budget (Headroom)/Gap £m
2017/18	0.888	0.888
2018/19	2.114	3.002
2019/20	0.384	3.386

HOW THE FINANCIAL CHALLENGE WILL BE MET

At a summary level there are options available for the Council to consider with regard to balancing the budget by 2019/20.

THE STRATEGY

To achieve a reduction in net expenditure the Council's Strategy will be:

- **To deliver a balanced budget over the Financial Planning Period to 2019/20**
- **Introduce a charging policy for the collection of Garden Waste**
- **To identify the savings required to balance the budget seeking to minimise the impact on front line service users**
- **To be entrepreneurial and prioritise property investments that grow the Council's income**
- **Work with collaboratively with partners**

FINANCIAL CONTEXT

The strategy below seeks to close the budget gap by 2019/20. In order to protect front line services the priority of this MTFS is to seek to apply an appropriate balance between maximising income opportunities and reducing costs. To this end £3.386m will be sought from various options by 2019/20. The table below sets out the MTFS targets that aim to balance the budget over the medium term:

	2019/20 £m
2017/18 MTFS Forecasted Budget Deficit to 2019/20	**3.386**
INCREASING INCOME	
Charging for the Collection of Garden Waste with effect from 1 April 2018	(0.540)
Council Tax Increases w.e.f. 2018/19	(0.457)
Borough Investment Account – Net Investment in the Council's Assets to Generate Income	(0.300)
BRR – Growing the Tax Base	(0.250)
Council Tax Base Growth from City Deal	(0.150)
New Income Generation Schemes	(0.150)
Review of Car Parking Charges	(0.110)
Charging for Replacement Waste Bins	(0.060)
Sub – Total Income	**(2.017)**
REDUCING EXPENDITURE	
Expansion of Shared Services including One Public Estate Co-location and Collaboration	(0.750)
Business Transformation Programme Incl. review of non-statutory functions and a Business Analysis Review of non-staffing costs	(0.500)
Strategic Review of Reserves	(0.300)
Contribution to Police Community Support Officers	(0.044)
Sub – Total Expenditure	**(1.594)**
TOTAL BUDGET EFFICIENCIES TO 2019/20	**(3.611)**
2017/18 MTFS to 2019/20 - Budget Deficit/(Surplus)	**(0.225)**
Investment in the Corporate Improvement Plan and Expanding Capacity to deliver the MTFS	0.225
2017/18 MTFS to 2019/20 - Budget Deficit/(Surplus)	**Balanced Budget**

These options will be worked into more detailed project plans and be delivered within a project and performance framework allowing for consultation where applicable. A summary of grouped options is provided below:

New Income Generation Schemes

Developing income generating scheme by building on a consultation report from Grant Thornton on possible option, for example, Care Home Provision, Loans for Housing and Energy Supply

Expansion of Shared Services including One Public Estate Co-location and Collaboration

Shared services continue to be a significant method by which council generate savings and capacity for service delivery. Nationally, there are many examples of shared services, ranging from individual posts and services to full shared management teams. South Ribble and Chorley Councils are the most obvious partners for developing further shared services, given the strong track record of joint working and similarities between the two. A paper will be presented to the Executive Cabinet meetings that sets out a joint ambition to create a close working relationship, with the ultimate aim to develop shared services serving two independent and sovereign councils. This work will mean some upfront investment, although costs will be able to be contained within existing resources. Cost savings achieved by other district councils would suggest that a 10% saving would be achievable over the long term by sharing officer structures and key contracts. A target saving of £750k by 2019/20 is included within this strategy.

Strategic Review of Reserves

A streamlining of contributions into reserves at a level to be determined that does not destabilise the Council’s financial resilience.

Business Transformation Programme

Project based review of non-statutory functions and the non-staffing running expenses of the Authority.

LINKS TO OTHER FINANCIAL STRATEGIES

The MTFS includes the financial implications of the Capital Programme and the Reserves Strategy both of which are detailed in this report specifically in Appendix E and Appendix F respectively. The Treasury Strategy is detailed within another report on Cabinet’s agenda, however a summary of the main points are below.

Treasury Strategy

The Chartered Institute of Public Finance and Accounting published Code of Practice for Treasury Management (Local Government Act 2003) also requires Council’s to have regard to the prudential code. The primary requirements are to:

- Create and maintain a treasury management policy statement which sets out the policies and objectives to the Council’s treasury management achievements.
- Create and maintain treasury management practices which set out the manner in which the Council will seek to achieve its policies and objectives.
- Provide the Executive with an annual strategy report.
- Specify to whom the responsibility for implementing and monitoring treasury management activities is delegated.

In all respects the Council complies with the above and reviews these requirements in the annual Treasury Strategy and also in the Treasury Mid-Year Review reports.

In respect of Council Strategy for Treasury Management the principles will be as follows:-

The Council will:

- **Have regard to the prudential code, and set prudential indicators to ensure the Council’s capital investment plans are affordable, prudent, and sustainable.**
- **Make decisions regarding borrowing and investment based upon the latest information, look to optimise returns on investment, and to minimise borrowing costs.**
- **Ensure the costs of borrowing are reflected in revenue forecasts.**
- **Comply with guidance relating to investments, ensuring that capital is kept secure, and liquidity is maintained at an appropriate level.**
- **Not engage purely in borrowing to invest or lend on to make a return, as this is unlawful.**
- **Agree a set of investment instruments which the Council can use based upon monitoring risk.**

The prudential indicators, targets and measures will be agreed as part of the budget setting process via the production of the annual Treasury Management Strategy.

2017/18 Capital Programme Estimates and Financing

Capital Budget 2016/17

The forecasted out-turn position for 2016/17 Capital programme is set out in the table below. It details the schemes that have been delivered against the Original Estimate for Capital Expenditure in 2016/17 approved in March 2016. The original budget was £5.421m and the forecasted Out-turn is expected to be £2.628m. The variation being caused by the re-phasing of a number of 2015/16 Capital Projects into the 2016/17, the re-profiling of parts of the 2017/18 Capital Programme into future years and underspends on projects due to cost efficiencies being achieved in year.

Strengthened budget setting and profiling procedures have been implemented to improve the robustness of the Capital Programme delivery profile following feedback received from the Council's Governance Committee.

Capital Programme 2017/18 to 2019/20

NEW CAPITAL INVESTMENT

The proposed Capital Programme to 2019/20 includes new investment into our assets in the sum of £0.330m to help safeguard a heritage asset in Worden Hall and to facilitate an increase in opportunities to generate income on a commercial basis within the Civic Centre's Banqueting Suite.

The original core Capital Programme for 2016/17 as approval last year has been updated. The costs of three schemes have increased and some schemes have been proactively re-phased in anticipation of additional workload being accommodated to deliver the Corporate Plan, the Corporate Improvement Plan, the MTFS and any actions approved post the forthcoming Peer Review.

The following table provides a Summary of the Capital Programme 2017/18 to 2019/20 listed on **Appendix E**:

Capital Expenditure	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Original Capital Programme	4.091	2.053	2.379	8.523
New Investment Schemes	0.213	0.330	-	0.543
Earmarked Capital Projects	0.100	2.379	-	2.479
Total Capital Programme	**4.404**	**4.762**	**2.379**	**11.545**

The Capital Programme has been financed using the following monies, a breakdown is included in the tables below:-

- Capital Receipts the Council has collected including Developer's Section 106 Contributions. Affordable Housing Section 106 Contributions.
- Right to Buy Capital Receipt.
- Contributions from Earmarked Reserves such as Asset Management and City Deal investment.
- Revenue Contributions.
- Grants.
- Borrowing

This Capital Programme will be financed by the following as set out in more detail in **Appendix E** including **£3.323m** from Earmarked Reserves:

Capital Financing	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**Total £m**
Grants	0.617	0.566	0.544	1.727
External Contributions – City Deal	0.075	-	-	0.075
Capital Receipts	0.500	0.707	0.220	1.427
Reserves	1.642	1.271	0.410	3.323
Revenue Contributions	0.024	-	-	0.024
Developer's Contributions Section 106	0.576	1.920	-	2.496
Borrowing	0.970	0.298	1.205	2.473
Total Capital Programme	**4.404**	**4.762**	**2.379**	**11.545**

Housing Capital Allocations

Our Housing service is the only area in which we currently receive annual capital expenditure funding support from the Government. From 2015/16 the government funding for Disabled Facilities Grants (DFGs), previously provided by DCLG, is now provided by the Department of Health (DH). This DH funding is included in the *Better Care Fund (BCF)* which aims to bring about integration of health and social care spending. Local housing authorities, social services, health and social housing providers have all been contributors to the adaptations provision. Under this new regime, local authorities still have to meet their legal obligations to provide DFGs but the funding is allocated by Lancashire County Council who have overall responsibility for the *Better Care Fund.* In 2016/17 the Council received Disabled Facilities Grant funding of £543,377 from the Department of Health (DH) via Lancashire County Council. The DFG expenditure forecasts assume that this level of capital funding will continue beyond 2016/17 and to 2019/20.

Prudential Code

Capital expenditure incurred by the Council is controlled and governed by guidance set out in the Prudential Code for Capital Finance in Local Authorities (the Code). The professional code of practice sets out a framework for self-regulation of capital spending, in effect, allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code allows the council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability. Members' involvement in the decision making and monitoring process is considered essential in order that the Council can demonstrate capital expenditure plans are affordable, external borrowing is prudent and sustainable and that treasury decisions are taken in accordance with good practice. The detail in this regard is the subject of a separate report on this Cabinet agenda in relation to the Council's Treasury Management Strategy.

Other Key Points

Importantly the proposed Capital Programme is fully funded and the revenue implications have been incorporated within the Revenue Estimates summary at **Appendix A.** Finally, the practice of including a budget allowance for professional/technical fees within Capital Programme project estimates has continued. This ensures we have the capacity (people and skills) and money to deliver a realistic programme of works.

2017/18 Capital Programme Estimates and Financing

2017/18 Proposed Capital Programme Expenditure to 2019/20

Scheme Name	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Academy (Revs & Bens) print management service			9,500	-	-	-
Business Transformation - Customer Contact			30,000	30,000	-	-
Business Transformation - Mobile Working			-	-	22,000	-
Call Centre system upgrade			3,930	-	-	25,000
Capita Revenues & Benefits system			25,212	-	-	-
CAPS system replacement			8,773	-	-	-
Desktop replacement programme			-	-	-	185,000
Electronic Document & Records Management System (EDRMS)			-	22,000	-	-
Financial Management Information Systems (FMIS)			-	20,000	-	-
IT hardware replacement			25,666	40,000	40,000	40,000
Licencing system (LALPAC)			7,100	-	-	-
SAN server replacement			-	85,029	-	-
Sorce - intranet			5,000	-	-	-
Web Firmstep - cloud based			9,557	10,000	10,000	10,000
Corporate Support and Shared Services			**124,738**	**207,029**	**72,000**	**260,000**

Scheme Name	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Civic centre - Resurfacing of car park			-	-	-	50,000
Investment Property Heaton St - Roof refurbishment			-	-	20,000	-
Investment Property Middleforth - Asbestos removal and demolition			-	-	100,000	-
Investment Property Farm Yard cottages - New roofs			-	50,000	-	-
Investment Property Middleforth / Bison Place - Redevelopment of units			-	5,000	495,000	-
Investment Property Worden Craft Units - Infrastructure upgrade			-	55,000	-	-
Momentum business centre			587,807	-	-	-
Moss Side Depot - Fire suppression works			-	50,000	-	-
Bamber Bridge refurbishment of pavilion			128	-	-	-
Gregson Lane replacement pavilion			-	30,000	-	-
St Cuthbert's replacement pavilion			-	-	50,000	-
Wesley Street development			-	54,976	-	-
Management of Assets			**587,935**	**244,976**	**665,000**	**50,000**

Scheme Name	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Open Spaces			113,021	117,779	100,000	100,000
Farington Lodges improvements			-	-	100,000	-
Gregson Green - Drainage Scheme			58,287	50,608	-	-
Hurst Grange Park		Y	9,660	40,340	-	-
Hurst Grange Park development plan			-	50,000	-	-
Moss Side Sports Facilities - Car park extension		Y	7,500	102,500	-	-
St Mary's, Penwortham - Churchyard wall repairs			-	76,950	-	-
Vehicles and Plant replacement programme			261,687	970,000	298,000	1,205,000
Withy Grove Park		Y	-	250,000	-	-
Worden Park - Extension to overflow car park			109,356	-	-	-
Worden Park - Refurbishment of Vinehouse			40,000	58,000	-	-
Worden Park - Replacement conservatory / greenhouse			2,995	190,005	-	-
Worden Park - Toilet facilities improvements			-	225,000	-	-
Neighbourhoods and Streetscene			**602,506**	**2,131,182**	**498,000**	**1,305,000**

Scheme Name	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Feasibility & Surveys - Design and development	Y		18,000	20,000	20,000	20,000
St Catherine's Park - Memorial & peace garden, pathways, footbridge, seating, etc.	Y		72,637	-	-	-
Cuerden Park visitor centre		Y	3,500	-	-	-
Bamber Bridge - Regeneration	Y	Y	360,000	80,000	-	-
Leyland - Gateway features	Y		50,000	75,000	-	-
Leyland - Regeneration			-	285,000	-	-
Leyland - Town Team			5,488	-	-	-
Longton Village - Regeneration			26,286	7,000	-	-
Walmer Bridge Improvements		Y	20,000	73,500	-	-
Hutton overflow car park		Y	30,000	-	-	-
Leyland Fox Lane Sports & Social Club		Y	46,000	-	-	-
Lostock Hall Football Facility		Y	-	150,000	-	-
Malt Kin Fold - Contribution to extension of track		Y	12,800	-	-	
Walton-le-dale Community Centre car park refurbishment		Y	-	75,000	-	-
Regeneration, Leisure & Healthy Communities			**644,711**	**765,500**	**20,000**	**20,000**

Scheme Name	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Disabled Facilities Grants			439,929	544,000	544,000	544,000
Disabled Facilities Grants - additional funding			167,502	41,875		
Empty Properties			36,000	32,000	32,000	-
Private Sector home improvement grants			-	100,000	200,000	200,000
Strategic Planning and Housing			**643,431**	**717,875**	**776,000**	**744,000**
Performance Reward Grant (PRG)			24,250	24,500	22,203	-
South Ribble Partnership (PRG)			**24,250**	**24,500**	**22,203**	**-**
Capital Expenditure Total			**2,627,571**	**4,091,062**	**2,053,203**	**2,379,000**

The table below lists the changes made to existing scheme with regard to re-pricing.

Increases to Existing Capital Schemes	Increase 2016/17 £	Increase 2017/18 £	Increase 2018/19 £	Increase 2019/20 £
IT – EDRMS upgrade	-	10,707	-	-
Moss Side car park	-	60,000	-	-
Worden Park toilets	-	75,000	-	-
Total Increase	**0**	**145,707**	**0**	**0**

2017/18 Proposed Capital Programme Financing to 2019/20

Capital Financing	Revised 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Grants	645,967	617,375	566,203	544,000
External Contributions – City Deal	432,637	75,000	-	-
External Contributions – Other	69,623	-	-	-
Capital Receipts	49,488	491,976	252,000	220,000
Reserves	978,709	1,378,371	907,000	410,000
Revenue Contributions	11,750	-	-	-
Section 106	189,460	558,340	30,000	-
Borrowing	249,937	970,000	298,000	1,205,000
Capital Financing Total	**2,627,571**	**4,091,062**	**2,053,203**	**2,379,000**

The following Capital Schemes and Projects are already approved and within the Capital Programme, however, their delivery is wholly dependent on events happening outside of the control of the Council and therefore may be subject to non-manageable variation. For clarification the Capital Financing to fund their delivery has been identified as earmarked to reserve the commitment.

Earmarked Schemes

Scheme Name	City Deal	S106	Revised 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
IT – Business continuity & disaster recovery			-	100,000	34,355	-
Affordable Housing		Y	-	-	1,345,000	-
Extra Care Housing Scheme		Y	-	-	1,000,000	-
Total Earmarked Schemes			**0**	**100,000**	**2,379,355**	**0**

Earmarked Capital Financing

Funding Source	Revised 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Reserves	-	100,000	34,355	-
Capital Receipts	-	-	455,000	-
Section 106	-	-	1,890,000	-
Total Earmarked Capital Financing	**0**	**100,000**	**2,379,355**	**0**

The table below lists the new Capital Projects for approval as per Recommendation 9 of this report.

Proposed New Investments	City Deal	S106	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Bamber Bridge railway station			-	5,000	-	-
Civic Centre – Banqueting suite and kitchen improvements			-	-	80,000	-
Civic Centre – CCTV			-	10,000	-	-
Civic Centre – Relocation of staff			-	20,000	-	-
Civic Centre – Swipe card security system			-	31,000	-	-
Civic Centre – Toilets refurbishment			-	50,000	-	-
Property Compulsory Purchase			3,000	8,000	-	-
IT – Committee Management system			-	20,000	-	-
IT – HR system upgrade (Selima)			-	20,000	-	-
Leyland Loop		Y	-	17,500	-	-
Lostock Hall Academy arts trail			-	7,000	-	-
McNamara Memorial			-	7,500	-	-
Polling Booths			-	5,460	-	-
Priory Park improvements			-	12,000	-	-
Worden Hall structural works			-	-	250,000	-
New Investment Total			**3,000**	**213,460**	**330,000**	**0**

Proposed Capital Financing	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Capital Receipts	3,000	8,000	-	-
Reserves	-	163,960	330,000	-
Revenue Contributions	-	24,000	-	-
Section 106	-	17,500	-	-
Capital Financing Total	**3,000**	**213,460**	**330,000**	**0**

Appendix F

General Reserve, Earmarked Reserves and Capital Reserves

Revenue Reserves

The financial implications resulting from this proposed budget on the General Reserve is detailed in the table below. A contribution from the General Reserve totalling £0.561m over the period of the MTFS is required to balance the base budget base on an assessment of the MTFS delivery profile. To support this timetable contributions from balances are planned in 2017/18 and 2018/19 in the sum of £0.300m and £0.261m respectively. It should be noted that any delay in delivering the MTFS profiled timetable will increase these planned contributions, however, any over-achievement of targets will reduce the level of contributions required.

KEY 2017/18 BUDGET MESSAGE – Reserves Strategy

The reserves strategy is to retain the General Reserve at a level that is no lower than £4.0m by the end of the three year period contained within the 2017/18 MTFS to 2019/20.

This aim will therefore be the first call on uncommitted in year budget variations and City Deal receipts over and above those needed to support approved borough schemes. This Reserves Strategy will be monitored on a monthly basis and reported to Governance Committee on a quarterly basis in the Budget Management Reports.

The requirement for financial reserves is acknowledged in statute. The Local Government Act 2003 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating its budget requirement. These existing safeguards are further reinforced through the external auditor’s audit and inspection processes, whereby the financial performance and standing of an authority is assessed and categorised. One aspect of the authority’s financial standing that is assessed is the level of financial reserves.

As part of the budget setting process, the council is required to confirm the adequacy of reserves in the light of its final spending plans. The level of reserves held by the council, both general and those earmarked for specific purposes, is a decision for the council in the context of the financial risks facing it. There is no specific guidance on what constitutes a reasonable level of reserves as the circumstances facing each individual local authority will differ, however, some criticism was aimed at authorities that did not match their maximum potential exposure to a loss of an investment as allowed in their Treasury Strategy.

The adequacy of reserves is a review that is undertaken twice a year, firstly as part of budget setting and forecasting the financial pressure and risk and secondly as part of the year end account closure process when actual circumstances throughout the year, and possibly new risk, has emerged. Therefore the Council has considered its level of reserves in the light of the information within the Provisional Local Government Finance Settlement and the MTFS budget forecasted budget deficit to 2019/20.

It is important that any decision in this regard is taken in the context of the Medium Term Financial Strategy and is not based on just a single one year view. As referred to in this report, the financial challenges to Councils are increasing with the embedding of a very much transformed Local Government core grant funding structure whereby significant funding steams are increasingly uncertain and therefore financial risk. BRR operates within parameters are constantly fluctuating. RSG has been totally withdrawn and the Council is fully reliant on locally collected income streams to constitute its core funding.

The introduction of a Tariff Adjustment which in affect continues the annual reduction of RSG into a negative deduction from local taxation earned is very much an unknown quantum at this time, however, from the funding trends published since the Comprehensive Spending Review in 2010 it is expected to continue beyond the period of the MTFS.

Building on the funding ethos and the aim to deliver a balanced budget within this MTFS, the Council continues to set aside funds to be used to generate recurring income for the Council to support the base budget and reduce the budget deficit. Subsequently, a two stage approach is being taken to reshape the total reserves structure as apart of budget setting in February 2017 and as part of closing the account in June 2017. These reviews will set the Borough Investment Account total to facilitate income generation schemes and create a diverse and self-sustaining income portfolio that will enable the Council to further bridge the funding gap. This option minimises the impact on residents and the contribution that is required from reducing expenditure and increasing other income streams such as Council Tax.

G*eneral Reserve -* This reserve is needed to deal with unplanned/unforeseen expenditure or losses in income. The level of General Reserves is kept under review as the council continues to introduce improvements to its performance monitoring and risk management systems.

Earmarked Reserves - The council has established earmarked reserves to meet ‘known or predicted liabilities’ where the impact of the expenditure would otherwise cause a significant variation to the council’s annual expenditure. During the period of the 2017/18 MTFS the total held in Earmarked Reserves reduces from £13.219m to £7.654m equating to a decrease of 42.1%. This overall reduction has been brought about by the following:-

- Expenditure on assets to convert the Borough Investment Account into recurring income streams as part of the objectives of the MTFS to achieve financial self-sufficiency.
- Strategic Review of Reserves aimed at decreasing the annual contribution into Earmarked Reserves as per the MTFS.
- Capital Financing of projects within the 2017/18 Capital Programme to 2019/20.
- Application of the Homeless Prevention Grant.

Funds have also been set aside from the income generated via the Business Rates Retention due to the extensive lack of clarity on the financial implications of significant changes over the period of this MTFS. As the BRR income makes up a higher proportion of overall income the impact of any future risk to its reduction becomes greater. This reserve is therefore shown as increasing over the period to 2019/20, however, the following should be noted:-

- The reserve contains the income currently anticipated from City Deal. The implication of the potential changes to BRR and actual changes introduced to NHB, mean that the City Deal financial framework is under assessment and therefore the estimated contributions from CD into the reserve may potentially reduce over this period at which point the Reserves Strategy will need to be reviewed.
- The recent national re-valuation exercise undertaken by the VOA (not the Council) has triggered the start of a new opportunity for business owners to appeal against the re-valuation anytime over the subsequent four year period.
- Due to the appeals process the rateable value of the tax base will only ever decline over time.
- Should only one of the largest business premises be removed from the ratings list then the impact on the base budget would be a reduction in income of circa. £0.550m. This presents a much larger financial risk when compared to variations to the Council Tax Base.

- The BRR is being reviewed by Central Government and the impact on any BRR growth achieved to date in respect of growth achieved, or how the retention value to the Council will be calculated. In addition the Baseline Funding assessment that is part of determining what income may be retained is due to be re-set by Central Government by no later than 2020/21.
- The BRR tax base is more volatile than Council Tax as the economic cycle means that invariably there is likely to a future period of recession. In addition the make up the tax base may change over time e.g. fewer higher value premises to high volume lower value properties all of which impacts of income and risk.
- With effect from 2016/17 the Base Budget includes additional income of circa. £1.400m to reflect growth in the tax base and the benefits of joining the Lancashire BRR Pooling Agreement. Therefore this is the financial risk the Council is exposed to, in addition to managing risk within a volatile tax base, should tax base growth be transferred to Central Government and also if the annually renewed Lancashire Pooling Agreement dissolves.
- Inflationary increases applied to BRR are critical but are determined outwith the Council.

The Table below highlights the projected levels of revenue reserves, based upon ***provisional*** budget figures within this report.

Reserves	Projected Balances			
	31 March 2017 £000	31 March 2018 £000	31 March 2019 £000	31 March 2020 £000
General Reserve	**4,320**	**4,019**	**3,758**	**4,159**
Earmarked Reserves				
ICT Strategy	927	580	473	363
Elections	82	112	142	52
Asset Management	1,465	669	0	199
Public Open Space Commuted Sums	1,535	1,476	1,417	1,358
Vehicles, Plant & Equipment	0	0	0	0
Local Plans	80	80	80	80
Housing Needs Survey	85	60	50	70
Leisure Sites Repair & Maintenance	160	160	160	160
Performance Reward Grant	50	30	23	23
New Burdens Grant	153	153	78	78
Organisational Restructure Costs	385	385	385	385
Equalisation Reserve – BRR & City Deal	3,359	3,803	4,122	4,199
Borough Investment Account	3,824	0	0	0
Other	1,114	1,053	925	687
Sub Total Earmarked Reserves	**13,219**	**8,561**	**7,855**	**7,654**
Total Reserves	**17,539**	**12,580**	**11,613**	**11,813**

Capital Reserves

The following table provides a detailed forecast of the capital receipts reserves for the period up to 31st March 2020. Capital receipts are used to support the Council's Capital Programme and the figures below have been adjusted to take into consideration the proposed funding of the Capital Programme in **Appendix E.** The financing of the Capital Programme to 2019/20 reduce the Capital Reserve available from £2.037m to £0.609m in 2019/20 which is a reduction of 70% with the Preserved Right to Buy being fully allocated to support investment priorities identified.

Reserve	Projected Balance 31/03/17 £000	Projected Balance 31/03/18 £000	Projected Balance 31/03/19 £000	Projected Balance 31/03/20 £000
Capital Receipts Reserve	558	503	503	503
Earmarked Receipts	459	146	126	106
Preserved Right to Buy Receipts	1,020	888	201	nil
Total	**2,037**	**1,537**	**830**	**609**

Report of the Chief Finance Officer (s151)

BACKGROUND

Under the requirements of Section 25 of the Local Government Act 2003 the Statutory Finance Officer is required to advise members when setting the budget as to the robustness of the estimates and the adequacy of working balances.

THE ROBUSTNESS OF ESTIMATES

In terms of the budget proposals, once again in 2017/18 a thorough reassessment of the budgets has been undertaken by Directors and their accountants based upon the latest information available. In terms of the key assumptions contained particularly in the 2017/18 budget these are shown in the MTFS but are summarised for convenience below:

Key 2018/18 Budget and MTFS Assumptions

The table below shows the key assumptions made in forecasting forward the Council's financial position.

Assumption	2017/18	2018/19	2019/20
Council Tax Increases	0.0%	0.0%	0.0%
Revenue Support Grant (RSG)	£0.346m	-	-
BRR Baseline Funding Level	£2.191m	£2.262m	£2.342m
Total New Homes Bonus Receipts after City Deal contributions	£0.681m	£0.390m	£0.117m
Pension Fund - Future Service Contribution	14.9%	14.9%	14.9%
Pension Fund Deficit Recovery profile (cumulative)	£0.656m	£1.336m	£2.041m
Additional Business Rates through membership of Lancashire Pooling Arrangement	£0.787m	£0.787m	£0.787m
Lancashire Waste Partnership Income Expires as at 31/03/18	£0.933m	-	-
Pay Award	1.0%	1.0%	1.0%
Average Treasury Investment Returns	0.31%	0.31%	0.58%

In terms of the key assumptions I would make the following comments to confirm their validity:-

Council Tax Increases

The Administration's aim in their future strategy remains to contain future increases to within the referendum limits. In **Appendix A** the forecast budget position in future years does not take account of any potential council tax increases. The MTFS, however, models the impact of limited council tax increases. As the council tax is decided annually it will be for the council to determine if any actual increases are implemented. A prudent approach is therefore being taken to forward forecasting council tax yield. If housing growth continues at the current rate it is likely that council tax yield will be greater and an allowance has been made for this within the base budget forecasts and budget deficit to 2019/20.

The MTFS also contains an estimate of additional Council Tax that will be generated over and over previous trends due to the acceleration of residential homes facilitated by City Deal. That said the increase in new homes provided within the borough is dependent on developers progressing sites.

Council Tax Freeze in 2017/18

The Administration is proposing to freeze council tax in 2017/18, but there is no council tax freeze grant available as some previous years. The Local Government Finance Settlement allocations are also now calculated with Central Government making the assumption, and making an allowance, that Council Tax will be increased within the referendum limit. Therefore not increasing Council tax impacts on two core income streams.

Reduction in Grant Settlement

Central Government is progressing its intention to completely remove Revenue Support Grant by the year 2019/20, at the same time replacing it with a remodelling business rate retention scheme. In fact South Ribble Council's RSG income has been completely removed one year earlier with effect from 2018/19. The risks with this for the Council is that we have the certainty of the Revenue Support Grant reductions but the uncertainty of the new business rate system, the details of which will not be embedded on a permanent basis for some years to come. For this reason the forward estimates for business rates income are a challenge but have been set at what is considered a realistic level at this time supported an equalisation account earmarked reserve and a level of working balances in the General Reserve which I recommend the Council should hold to mitigate against some of this risk.

New Homes Bonus

The Government in its finance settlement for 2017/18 included amendments to the way New Homes Bonus (NHB) is distributed with the intention of redistributing circa. £800m to Council's providing adult social care services. The key change being that that NHB earned is only received for a 4 year period instead of 6 years with a transitional years in 2017/18 when that years the grant will be received for 5 years. In addition the allocation in 2017/18 and onwards will be reduced using a 'deadweight adjustment.' This assumes that the Council should at least expand the housing base by 0.4% per annum with any growth below this level not applicable for grant award. This has had a significant effect on the resources available to the Council and is a third way in which the Council's core income can be reduced outwith its own control when added to the retraction of Revenue Support Grant and the introduction of the 'Tariff Adjustment' (or so called Negative RSG).

As NHB is a key funding stream of City Deal the Resource Review will report on its impact and so the relevant adjustment can be made to the CD Finance Model.

Business Rates Retention - BRR

The budget report explains the volatile nature of this particular core income stream and why accurate forecasting of future receipts is problematic. The income levels contained within the budget are based upon a set of assumptions that may impact on the total amount collected in future years, in particular the outcomes within the appeals process. In respect of making a provision for this issue, I have modelled a flat rate assumption as per the Central Government multiplier adjustment and also reviewed each past appeal claim since 2010 on this ratings list to arrive at an estimated value of possible future successful appeals awarded by the Valuation Office Agency (VOA). Forecasting future losses in income due to appeals and deletions remains extremely difficult especially in the light of the recent national ratings list revaluation by the VOA and the changes to be implemented to the Appeals process as past trends will not necessary be a true reflection on future submissions, decisions and outcomes; again all outwith the influence and control of the Council.

BRR is also a key income stream into City Deal and therefore any variations to the whole regime will need to be fed into the Resource Review for consideration with regard to revising and updating the CD Finance model. For these reasons I am not building any estimated growth into the base budget forecasts assumptions which I believe is a prudent approach. Instead a target has been added to the MTFS for a budget management working group to pro-actively pursue via a project management framework.

With regard to the additional income resulting from being a member of the new Lancashire BRR Pooling Agreement, budgeted income from 2017/18 is estimated based on the current level of receipts. Although there is a significant financial benefit to being a member of the pooling arrangements this presents a significant risk as identified in this report should the Pool, which has to be renewed each year, dissolve.

Pension Fund Contributions

Contributions to the pension fund are budgeted for and are calculated on actual contribution rates determined by the pension fund actuary. A review of these contributions has taken place and as such the assumptions regarding the contributions are accurate.

Pay Award

The estimates for 2017/18 are based upon the most recent announcement of actual pay award, so in that respect are robust. Future years are based upon the fact that pay restraint is likely to continue.

Treasury Investment Returns

The rates of return are based on forecast provided by the Council’s treasury advisors with a margin for achieving a better performance consistent with that achieved in previous years through pro-active management of cash flow and cash balances.

The MTFS sets out the Council's plans to bridge the funding gap as summarised below:

Total Summary Budget Efficiency Options to 2019/20

STRATEGY	2018/19 £m	2019/20 £m
INCREASING INCOME		
Subscription based Garden Waste Collection Service	0.450	0.540
Review of Car Parking Charges	0.110	0.110
Council Tax Increases	0.227	0.457
Growing the Borough's Council Tax Base	0.050	0.150
Investing in Income Generating Assets	0.300	0.300
Growing the Borough's Business Rates Tax Base	0.250	0.250
A Charging Policy for Replacement Bins	0.060	0.060
Entrepreneurial Income Generation Schemes	-	0.150
Sub-total Income	**1.447**	**2.017**
REDUCING COSTS		
Expansion of Shared Services including Review of Major Contract, One Public Estate Co-location and Collaboration	0.250	0.750
Business Transformation incl. Non-statutory Services and a Business Analysis Project of Non-staffing Costs	0.300	0.500
Strategic Review of Reserves	0.300	0.300
Retraction of Contribution to Police Community Support Officers	0.044	0.044
Sub-total Expenditure	**0.894**	**1.594**
ADJUSTMENTS TO RESERVES		
One-off Reduction of Contributions to Reserves	0.625	-
Contribution from General Reserve	0.261	-
Sub-total Adjustment to Reserves	**0.886**	**-**
Total Resources Available to Balance the Budget	**3.227**	**3.611**
Investment in the Corporate Improvement Plan and Capacity to Deliver the 2017/18 MTFS	(0.225)	(0.225)
Forecasted Budget Deficit (Appendix A)	**3.002**	**3.386**

Delivering the MTFS

The forecasted budget deficit in is circa £3.6m to 2019/20, the above targets seek to reduce net expenditure by this amount. Some of the above options are based on targets and it is essential that these are worked up into more detailed project plans in the first quarter of 2017/18 to further test and give assurance in respect of deliverability. The timetable of delivery will be challenging for the Council to achieve in additional to other very key projects within the Corporate Plan and the implementation of the Corporate Improvement Plan.

I make note that the MTFS delivery timetable makes use of contributions from General Reserves, however the current profile does allow for a contribution back into the General Reserve to maintain the level above £4.0m.

The budget proposal within this report make a provision for investment into increasing capacity and additional skills into the work force, such as entrepreneurial and commercial skills which will also be key in the successful delivery of the MTFS budget efficiency financial plan. Actions within the authority to fill vacant statutory posts and also facilitate effective consultation and timely, effective and efficient decision making by the use of robust policies, project and performance management are also essential to maintain pace and keep the programme on track.

The strategy shows that broadly speaking the administration will attempt to bridge the gap by generating additional revenue of £2.0m and reducing costs by £1.6m. Based upon the analysis of risk I have undertaken that this is not unrealistic, however the timeframe is challenging and it will require the Council to focus in particular upon business reviews and an agile Investment Strategy. As above, increasing capacity in, and upskilling the workforce; robust project and performance monitoring; and timely, effective decision making will all play an essential role in achieving the MTFS.

OTHER RISKS

The most significant known future risk facing the Council is the announcement by the County Council that from 2018 it will stop paying recycling credits to the Council. This amounts to over £0.900m for this Council and represents a major significant risk to all collection authorities in Lancashire. This step change with regard to the Council's level of income is reflected in the significantly large increase in the forecasted budget deficit between 2017/18 and 2018/19.

LEVELS OF RESERVES

The budget for 2017/18 has been established on the basis of utilising working balances to fund expenditure, however this MTFS indicates that working balances should be no less than £4.0m by the end of the MTFS period to 2019/20. This level is based upon risk contained in the budget particularly around future levels of government funding, the Treasury Strategy and the challenging delivery profile of the budget efficiency options to balance the budget by 2019/20.

Published report indicate that it is likely that further reductions to funding will be made within the local government sector given that a number of commitments have been made to protecting other public services. For this reason I feel that it is important to reconsider the level of working balances required.

In my view the Council should look to have a level of working balances that at least cover:

a. The expected budget deficit moving forward, and
b. The risk of loss of deposits should future baking crisis occur.

The MTFS sets out that based upon current assumptions the Councils budget deficit could reach £3.6m by 2019/20 and the draft Treasury Strategy included a recommendation to increase deposit limits to £5.0m therefore I believe that over time the Council should look to increase its levels of general reserve from no less than £4.0 to no less than £5.0m, which would cover the sum of a deposit or more than enough to clear the expected deficit and maintain some General Reserve should the Council not be in a position to make the adjustments required in its budget within this MTFS timeframe, although obviously it will be seeking to do this.

In relation to the Treasury Strategy, individual deposit levels are currently restricted to £4.0m, however, to enable better rates to be accessed a limit of £5.0m on particular deposits is proposed within the Treasury Report on this agenda. One of the lessons for Councils who were affected by the Icelandic banking crisis was that they should at least have the minimum level of working balances to cover any potential loss of deposits should a banking crisis occur. For this reason I think it appropriate to increase the level of working balances.

By the end of 2016/17 the level of the General Reserve is expected to be £4.320m, however the planned delivery profile of the MTFS includes contributions to balance the budget in 2017/18 and 2018/19 totalling £0.561m and as reflected in **Appendix F**. Therefore the MTFS also includes an intension to make a contribution back into the General Reserve to bring the level back to over £4.0m by 2019/20 but this of course will be dependent on the Council's resource position and its success in achieving its fiscal targets.

Appendix H

REVENUE BUDGET – KEY BUDGET ASSUMPTIONS

	2017/18	2018/19	2019/20
Start- Up Funding Assessment			
Consists of:			
Revenue Support Grant	£0.346m	nil	nil
Baseline Funding level	£2.191m	£2.262m	£2.342m
Tariff Adjustment	nil	nil	(£0.494m)
Council Tax Increases	0%	0%	0%
New Homes Bonus Funding (NHB) after City Deal contributions	£0.681m	£0.390m	£0.117m
Nationally agreed employee pay award	1%	1%	1%
Employer's Pension Contribution Rates	14.9%	14.9%	14.9%
Employer's National Insurance Increase	Based on current rates	Based on current rates	Based on current rates

	2017/18	2018/19	2019/20
Investment returns (average)	0.31%	0.31%	0.58%
Key Income estimates	Proposed revision of car parking charges in 2016/17, no other significant changes	As at 2017/18 levels	As at 2017/18 levels
BRR Pooling Agreement – Anticipated Increased Retained Business Rates Income	£0.787m	£0.787m	£0.787m

Appendix I

City Deal 2017/18 Budget Implications Summary

City Deal Financial Model

The City Deal Finance model was developed and agreed with members and officers involved in the setting up of the City Deal arrangement. The model is based on income expected to be received from various income streams generated from developing residential and commercial sites with the matching expenditure being incurred delivering a program of relevant City Deal projects.

Income

When the City Deal model was formed it was anticipated that the contribution of income from South Ribble would come from the following sources:-

- Community Infrastructure Levy (CIL) receipts from residential and retail development (£17.471m)
- CIL Plus which is an assumption of additional revenue from development (£18.029m)
- New Homes Bonus (£25.409m)
- Business Rates (£4.350m)

The level of income from these sources is wholly dependent on the building of new homes and commercial floor space. The granting of planning permission and working with developers to enable sites to come forward is therefore key to the anticipated income being generated and received.

The target number of new homes in South Ribble on City Deal sites is 7,905. This includes an additional 1,000 properties not allocated to specific sites. The current forecast for new home building is in the region of 8,300 new properties. Therefore the volume of houses forecast should meet the City Deal targets, however this is dependent on developers actually bringing them forward.

In terms of commercial floor space the vast majority of income arising will be generated from the Cuerden Strategic site. A major Planning Application for the development of Cuerden was received at the end of January 2017.

Key Finance Model Assumptions

The original key assumptions on the level of income generated within the City Deal Finance Model are also impacted upon by the ongoing Central Government changes to CIL, New Homes Bonus and Business Rates Retention. These national policy changes impact directly on the City Deal Financial Model. The model therefore needs to be monitored and all changes identified and reported in a timely manner to enable solutions to be sought, agreed and implemented. The City Resource Review Group forecasts the impact of these changes and reports to the City Deal Executive. A report clarifying the impact of core income streams is scheduled to go to the April meeting of the City Deal Executive. Members will be updated on the report following this meeting.

By way of illustration, changes to the New Homes Bonus (NHB) scheme announced in the Provisional Local Government Finance Settlement have resulted in the following reduction in payments which the Council pay over to the City Deal Fund, under the agreed City Deal Heads of Terms:

	New Homes Bonus Receipts – City Deal			
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
NHB – Original assumption on previous NHB scheme	376	376	575	1,147
NHB – Revised assumptions on new NHB scheme	195	195	195	195
Reduction in funding	**181**	**181**	**380**	**952**

Expenditure

The **City Deal Infrastructure Delivery Plan** sets out the projects and programmes to be funded and the forecast resources. Some funding 'pots' are project specific with the rest being pooled.

The 'central' City Deal expenditure budgets are managed and monitored by LCC. The majority of the expenditure is procured by LCC. The current Resource Review is also looking at value for money on these projects in addition to the impact of changes to income stream receipts. There are two expenditure lines in the model where South Ribble can draw down funding to apply to borough projects subject to prior approval by the City Deal Executive. One of the key controls of City Deal is that approval to commence a delivery project within the borough, the written agreement confirming permission to reclaim costs must be in place. These 'central' budget costs can be reclaimed from the City Deal Budget Lines being as follows:-

- Community/Green Infrastructure (£6.448m)
- Public Transport Corridors & Local Centres - South Ribble (£12.125m)

Please note, however, that the Public Transport Corridors & Local Centres budget line is a total budget for both the Public Transport Corridors/highways works procured by LCC and the regeneration of the Local Centres undertaken by the Community Works team at South Ribble. In addition there is an expenditure line called 'Community Provision' in the model. The Council also receives £492,200 annually for a 10 year period to mitigate potential financial risks that could impact on the Council. There are no restrictions on how this is spent, however, it is not recommended that it is incorporated into the base budget as it is a temporary income allocation for the purpose of risk management. Therefore this funding is budgeted to be transferred into earmarked reserves.

The table below summarises the current position in relation to funding received by South Ribble which has been paid over to City Deal and amounts claimed from the City Deal Fund, giving a net cash flow of £579,441.

Net Payments and Receipts to/(from) City Deal

	Payments to City Deal Fund (£)				Receipts from City Deal Fund (£)		
Year	**Business rates**	**NHB**	**CIL**	**Total Payments**	**Community Provision**	**Project Expenditure Reimbursed**	**Total Receipts**
2014/15	42,431	0	0	**42,431**	(492,200)	0	**(492,200)**
2015/16	84,862	198,310	0	**283,172**	(492,200)	(299,372)	**(791,572)**
2016/17	0	770,327	241,724	**1,012,051**	(492,200)	(141,123)	**(633,323)**
Total	**127,293**	**968,637**	**241,724**	**1,337,654**	**(1,476,600)**	**(440,495)**	**(1,917,095)**
Net City Deal receipts to-date							**(579,441)**

A further claim for £0.224m has just been submitted for reimbursement which relates primarily to expenditure on the Bamber Bridge regeneration project.

Project Implementation

The finance received from new development together with other sources of funding is being used to provide key infrastructure projects and to fund community infrastructure. Within South Ribble the key infrastructure includes the following:-

- Penwortham By-pass
- Widening to dual carriageway standard and improvements to junctions along the A582 South Ribble Western Distributor and B5253
- Completion of the Cross Borough Link Road

Some of the works outlined above have been implemented, some are currently underway and others are planned within the next 5 years.

We have already completed or part completed several city deal projects some of the following examples give some idea as to how City Deal funding is assisting with delivery of regeneration projects in the borough:

- Recently works began in Bamber Bridge including the central garden & Iron Tree amongst the £3.35m scheme. These have been largely funded from City Deal PT/Corridor budgets.
- Worden Park entrance, connecting paths and roads have been paid for by City Deal Community Infrastructure funding - £0.155m
- Contributions to masterplans. As reported to cabinet, three masterplans for Penwortham, Leyland and Lostock Hall have been commissioned through City Deal. The value of these is £0.100m which will be paid from a central City Deal PT/Corridors budget. In addition, local works including landmark features and open spaces have been built and developed. For example, Leyland Tractor, footpaths links and signage.
- St. Catherine's Park was opened during last summer to commemorate the Queen's 90th birthday. A large proportion of the cost of these works was reclaimed from City Deal Community Infrastructure budget.

The City Deal Agreement presents a significant investment within the Borough with many projects that are still developing. Substantial contributions from City Deal to fund the Capital Programme are available including the ongoing regeneration in Bamber Bridge, Central Parks development and masterplan, potential regeneration of the area around Leyland Station.

Some revenue funding is also received, for example, the development of a Leisure Strategy. In addition, South Ribble and Preston both hold City Deal budgets for Community Infrastructure. A City Deal working team is developing a strategy to ensure projects and scheme suggestions for this budget, to the value of approximately £7.0m for South Ribble, are in line with both local and City Deal aims and objectives, which will be included within future budgets as they are finalised and approved.

Key Risks to the Medium Term Financial Strategy

Risk Area Identified	Potential Impact of Risk	Mitigation
Efficiency Targets and MTFS	Failure to deliver efficiency targets and the MTFS leading to a funding shortfall.	• Ensure that targets are realistic and deliverable within the timescales envisaged. • Allocate ownership and develop an action plan(s) for delivering the efficiencies and monitor delivery. • Governance arrangement and project methodology to be adhered to. • Maintain an adequate level of General Reserve.
Business Rates Retention	Multi-year impact of Business Rates Retention scheme. Business Rates tax base falls. Planned changes and adjustments to the regime through to 2019/20.	• Planned tax base growth to be delivered via City Deal • Robust forecast modelling and scenario forward planning undertaken as part of budget process • Adequate level of reserves • Maintenance of Equalisation Account
BRR Pooling Agreement	Change to the Pooling Agreement arrangement made available by Central Government. The Lancashire Pooling Agreement is dissolved.	• Planned tax base growth to be delivered via City Deal • Extensive modelling and scenario forward planning undertaken as part of budget process • Adequate level of reserves • Maintenance of Equalisation Account
Pay Inflation	Budget provision insufficient to cover actual pay settlements for years 2017/18 and beyond	• Maintain an adequate level of General Reserve
Pension Increases	Budget provision insufficient to cover the costs of implementing the results of the next triennial review. Triennial re-valuation impacts on Deficit Recovery Plan and contributions.	• Maintain an adequate level of General Reserve • Ensure any decisions regarding early retirement/ill health retirement are in accordance with the Council's policies.
Planning Fees Income	Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding.	• The income estimate has been rigorously challenged during the budget process. • Maintain an adequate level of General Reserve.
Land Charges – Search Fee Income	Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding	• The income estimate has been rigorously challenged during the budget process • Maintain an adequate level of General Reserve

Risk Area Identified	Potential Impact of Risk	Mitigation
Core Funding	Shortfall in actual grant funding compared with budget provision as per the provisional settlement to 2019/20. Volatility in retained business rate income as this will be determined by business expansion/ contraction in the area. Introduction of new Tariff Adjustment with no detail to its scale, profile and longevity	• Assumptions contained in MTFS. • Adequate level of General Reserve and Earmarked Reserve. • Deliver planned efficiencies within the MTFS.
New Homes Bonus (NHB)	Shortfall in actual grant funding compared with budget provision. Recent changes to NHB be extended in future years.	• A cautious approach has been taken in anticipating additional funding from this source beyond 2016/17. • The funding detail of City Deal is being reviewed by an external consultant.
Government Council Tax Capping	Government consider that budget decisions taken by the Council should be subject to capping. Increases over the cap would require a Council Tax referendum.	• Council considers Government guidance when setting its budget and council tax. • The Council Tax freeze being proposed for 2017/18 will not present any issues.
Interest Rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest and/or additional borrowing costs.	• Professional and specialist advice taken on interest rate forecasts • Cash flow modelled against anticipated financial forecasts and expenditure/income profiles • Treasury Management Strategy and Policies kept under review.
Financial Market Failure	Loss of investments and interest.	• Professional and specialist advice taken to support decisions. • Treasury Management Strategy and Policies kept under review.
Capital Programme	Funding shortfall due to overspending, unforeseen circumstances etc. Large variations from original budget to Capital Out-turn position.	• Capital Programme fully funded. • More detailed estimates/appraisal required before schemes are approved/ progressed. • Earmarked revenue and capital reserves maintained to at an adequate level. • Robust challenge to inclusion of Projects included in the Capital Programme and formal sign off procedure introduced.

All the above risks will also be mitigated by rigorous and regular monitoring of the Council's financial position throughout the course of the year so that appropriate corrective can be taken as appropriate. The Governance Committee has a key role to play in this respect.