EXECUTIVE **29 OCTOBER 2018**

SUBJECT:	**SETTING THE 2019/20 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2019/20 – 2023/24**
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1. Purpose of Report

1.1 To update the Executive of the likely challenges ahead in preparing for the 2019/20 and future years budget, to set out the parameters within which the Council will prepare these budgets, and to confirm the Council's approach to development of the budget and Medium Term Financial Strategy (MTFS).

1.2 Included in the report is an update on the current economic position and developments in national policy, which gives rise to specific impacts on local government funding. This, along with in year budget monitoring information and emerging issues, will inform the development of the MTFS.

1.3 To detail the arrangements for the integration of the parallel processes of financial, strategic and service planning.

2. Executive Summary

2.1 The financial landscape for local government over the medium term period poses significant challenge to the Council due to the volatility, complexity and uncertainty about future funding. Significant national decisions are still to be made by the government about future departmental spending through the Spending Review, the allocation of this funding to local government though the Fair Funding Review, and the implementation of the 75% Business Rates scheme, all of which will impact on the Council's MTFS. In addition the Council continues to face further budget pressures due to changes in use and demand for services as well as escalating costs.

2.2 Although there is a significant level of uncertainty about future funding, based on what is currently known, or can be reasonably assumed, it is likely that further substantial reductions in expenditure/increases in income will be required.

2.3 The Council's financial position needs to be viewed in the wider context of continued public sector austerity and the impact this is having upon the financial resilience and sustainability of local authorities. The warning signs are becoming increasingly clear as a number of authorities are taking measures to restrict expenditure to core, statutory services.

2.4 Although the potential increase in savings required will be substantial it is not unprecedented and the Council should have some confidence that it has a track record of delivering strong financial discipline and that it can rise to the challenge once again.

2.5 This successful financial planning to date has enabled the protection of core services for the people of Lincoln, whilst at the same time allowing for significant investment in the City, and its economy, and delivery of the Council's Vision 2020. The Council will continue to adopt this approach, carefully balancing the allocation of resources to its strategic priorities whilst ensuring it maintains a sustainable financial position.

3. Background

Current Economic Climate

3.1 The UK economy held up well in the six months after the EU referendum, but growth slowed from early 2017, with annual growth of 1.7% in 2017, the weakest year of growth since 2012. This slowdown continued into early 2018 with sluggish growth of 0.2% in the first quarter, however economists believe that this weakness mostly reflected the freezing weather temperatures rather than a structural slowdown in the economy. Certainly monthly figures for quarter two suggest that the economy has regained momentum with growth for the quarter of 0.4%, with overall growth for the year currently forecast to be 1.3%.

3.2 Beyond 2018 forecast UK growth is set to improve further to 1.6% in 2019 and 1.4% in 2018. There are still considerable downside risks to these growth projections given the uncertainties associated with Brexit and the possibilities of trade wars, but there are also upside possibilities if these can be contained and global growth continues to pick up.

3.3 CPI forecasts are that it is likely to fall back gradually during 2018, dipping below the Government's target rate of 2% in 2019 and then settling back around the target rate from 2020.

3.4 For only the second time in a decade the Bank Of England voted to raise the interest rate on 2nd August. The rate has risen by a quarter of a percentage point, from 0.5% to 0.75%, the highest level since March 2009. At the time of announcing the rise the Bank also stated that there would be further 'gradual' and 'limited' rate rises.

Public Sector and Local Government

3.5 The Autumn Statement 2017 set out the government's strategy to continue to return the public finances to balance as soon as possible in the next Parliament. In the interim, the government aims to reduce the structural deficit to less than 2% of GDP and get debt falling as a percentage of GDP by 2020-21.

3.6 The government remains on course to meet its fiscal rules and return public finances to balance by the mid 2020's. However, the levels of borrowing in the medium term are higher than previously forecasted due to the impact of a weaker economic outlook and measures announced in the Budget. The OBR still forecasts though that borrowing will fall to 1.1% of GDP by 2022/23, its lowest since 2001/02, and achieving its aim 2 years ahead of target in 2018/19. Debt as a share of GDP peaked in 2017/18 at 86.5% and is now forecast to fall next year and in every year of the forecast to 79.1% by 2022/23, again achieving its aim 2 years ahead of target. To achieve this, and to ensure the UK lives within its means, it is vital that the government continues to control public spending.

3.7 The last government Spending Review in 2015 set out the departmental resource and capital totals which have been subsequently adjusted to reflect later announcements. For the years beyond the Spending Review the government has set out a path for overall expenditure with departmental spending growing in 2020/21 through to 2022/23, in line with inflation.

3.8 For local government the Spending review 2015 was followed by a four year settlement between 2016/17 to 2019/20, which subject to the production of an Efficiency Plan, provided a degree of certainty over core funding. However as the final year of the settlement period is approaching the level of uncertainty significantly increases as local government is set to experience further fundamental funding reforms. Three specific reviews/changes will impact on the level of funding every local authority receives from 2020, those being:

- The Spending Review
- The Fair Funding Review
- 75% Business Rates Retention

3.9 The following paragraphs provide an update on these three specific events as well as other relevant government announcements and consultations which have occurred since approval of the MTFS in March 2018.

3.10 <u>The Spending Review</u>

In the Spring Statement 2018 the Chancellor announced that the government would use the Budget 2018 to set out the total public spending envelope for the years beyond 2020. Then a full departmental spending review in 2019 will set out the departmental allocations across government including setting the quantum of funding for local government. The time period to be covered by the review is unknown but is expected to be up to 4 years.

3.11 Although the Autumn Statement 2017 indicating that departmental expenditure limits would increase in future years this should not be inferred that the funding for local government will automatically increase as a result. Since the onset of austerity measures local government have borne a disproportionate share of government funding reductions than other parts of the public sector. By 2020 core funding from government will have fallen by nearly £16bn over preceding decade, a reduction of 63% in real terms. That means that local authorities will have lost 60p for every £1 the government had provided to spend on local services, whilst overall public spending will have marginally increased over the same period.

3.12 The Fair Funding Review

Whilst the Spending Review 2019 will set the overall quantum for local government funding it will be the Fair Funding Review that creates a new formula for the distribution of this across the local authorities by establishing new baselines at the start of the 75% Business Rates Retention scheme. The review itself focuses on three key elements;

- Determining Need – assessing the relative needs of local authorities determined by a combination of specific cost drivers

- Determining Resources (deducted from need) – assessing each authority's ability to raise resources locally

- Transition (to the new baselines – providing protection for those authorities facing severe funding reductions as a result of changes in their baseline needs.

The importance of each of these three elements will be different for individual local authorities depending on their own local position.

3.13 Although an initial consultation on the Review was undertaken at the beginning of 2018, there has been further little information provided by the government, other than through its Steering Group and sub group papers, but with no clear approach having yet been identified. From little information that is available it is expected that there will be a significant shift of resources away from district councils towards funding statutory social services at county and unitary level. This lack of information, inability to model exemplifications and uncertainty makes financial planning extremely difficult. Further consultations and technical papers are planned for 2019 and officers will continue to assess these for implications as they are released.

3.14 75% Business Rates Retention

Before the 2017 election, the Local Government Finance Bill 2016 was prepared with the aim of introducing primary legislation to enact the move from the 50% business rates retention (BRR) scheme to 100% BRR. However the Bill was not included in the Queen's speech following the general election, as such, any move to 100% BRR scheme could not happen without primary legislation changes. Subsequently as part of the Local Government Finance Settlement 2018/19 government announced that local business rate retention would move forward from 50% to 75% in 2020/21 rather than 100% as previously announced. The government has stated though that it is still committed to a long term aspiration of 100% retention of business rates.

3.15 As part of the move to a new 75% retention scheme there a number of fundamental issues that need to be addressed in terms of the specific design of the scheme. Key to this are issues around; the treatment of appeals and whether these should be funded centrally, the level and funding of any safety net, the split of retained funding in two tier areas and the treatment of excessive growth. Critically though is the premise that the system will itself be reset ahead of start of the new scheme. This will see business rate baselines adjusted to better reflect how much local authorities are actually collecting in business rates. It is still uncertain how these baselines will be determined and whether there will be a full or partial reset, but potentially this could see all growth built up since the launch of the current system in 2013/14 stripped away from the Council at the start of 2020/21.

3.16 Business Rates Retention Pilots

In 2018/19 the council along with the other Lincolnshire Districts, Lincolnshire County Council and North Lincolnshire Council successfully bid to become one of ten successful 100% Business Rates Retention Pilots. This means that for 2018/19 the Council will receive 60% of business rates growth, above the baseline positions, with 40% allocated to the County Council (under 50% retention the funding were 50% Central Government, 40% City of Lincoln Council and 10% Lincolnshire County Council). Crucially the pilot scheme includes a 'no detriment' clause meaning that no authority shall receive less than if it was operating under the current 50% retention scheme.

3.17 Based on an assessment of the amount of Business Rates that are expected to be collected during 2018/19 the additional resources currently estimated to be retained through the pilot is £18.6m of which £1.4m is attributable to the Council.

3.18 Although the pilot bids were only awarded for a one year period the 2018/19 Local Government Finance Settlement promised a further round of new pilots in 2019/20.

3.19 Prior to the summer recess the Government took the opportunity to announce its plans for the 2019/20 Business Rates Retention Pilots. The main points were as follows:

- All authorities that have not already been awarded pilot status for 2019/20 can apply, including the 2018/19 pilots;

- The 2019/20 pilots will be at 75% Business Rates Retention (i.e. lower than the 100% pilots of 2018/19);

- The 'no detriment' clause applied to 2017/18 and 2018/19 Pilots, will not apply to Pilots set up for 2019/20;

- There will be a Safety Net set at 95%, to reflect the additional risk locally that 75% retention introduces, and this will apply pilot wide and not to individual authorities; and no levy will be paid;

- The Pilot programme in 2019/20 is likely to be smaller than the programme in 2018/19 (i.e. ten pilot areas, plus London plus the original five 2017/18 pilots);

- Successful pilots would last for one year up to the end of March 2020 (i.e. in April 2020 it is intended that 75% is rolled out nationally); and

- Bids are to be submitted by 25th September 2018.

It is worth noting that Devolution Pilot areas and the London Borough Pilot have been automatically allowed to continue on a 100% basis in 2019/20 and with their ‘no detriment’ clause in place.

3.20 The existing 2018/19 Lincolnshire pilot members have assessed the benefits and any risks associated with a 75% pilot and commissioned LG Futures to review the latest publicly available Business Rate projections in order to ascertain whether they were likely to reflect further growth in the business rate base or were predicting a decline in business rate collection (potential to the safety net) which could be a risk to any pilot area. Initial projections of a 75% pilot based on the current pilot member authorities indicates that a further £9.9mm of business rates could be retained in the County during 2019/20. If the pilot bid is approved and these additional funds materialise they will be available to be distributed across Lincolnshire/Greater Lincolnshire on an agreed basis. Without the pilot bid these funds would continue to go back to Central Government as currently.

3.21 Following consideration by the Chief Executives and S151 Officers a bid for 2019/20 pilot status, based on the existing pilot authorities was submitted in September.

3.22 As part of the bid submission, a request will be made to form a Lincolnshire business rate pool should the 100% BR bid not be approved. The report to the Chief Executives meeting will determine which authorities will be included in this pool.

3.23 Local Government Financial Resilience

The National Audit Office have recently completed a major study on financial sustainability in local authorities, published following the crisis at Northamptonshire County Council. The report indicates that there is a heightened risk of more councils over the next four years falling into special financial measures as a result of unrelenting pressure on budgets.

3.24 It is likely then that the extreme situation at Northamptonshire, the first issuing of a Section 114 report by a local authority in 20 years, will be an isolated case. Certainly in the last few weeks Birmingham Council have been issued with a Section 24 notice by their External Auditor, acting as a warning shot to get its finances in order, and seen by many as a precursor to a Section 114 notice. In addition a number of other authorities, primarily upper tier at this stage, have announced that they are stripping back services to statutory services only in response to increasing service demands and funding reductions. The NAO report echoed this future direction in service provision by stating:

“The current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increased in demand for social are and of tightening resources”

3.25 As part of its response to the challenges facing the sector, CIPFA is currently consulting on a local authority financial resilience index. The aim of the index is to provide an authoritative measure of council’s financial resilience, an assessment of the relative financial health of every council, drawing on publicly available information, intended to provide an early warning system where it is needed so that action can be taken at a local level in a timely manner. The index will though effectively rank every local authority as either red, green or amber on the basis of six indicators (four for district councils). Consultation on the index closed at the end of August with the intention that the first index will be published during Autumn 2018.

3.26 Social Housing Green Paper and Right to Buy Consultation

The Government's Social Housing Green Paper was launched in August 2018 and sets out a 'new deal' for social housing residents around five core principles, those being

- Ensuring homes are safe and decent
- Effective resolution of complaints
- Empowering residents and strengthening the Regulator
- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership

From a financial implications perspective the most pertinent principles will be the first and final ones above.

3.27 In relation to ensuring that homes are safe and decent. the paper calls for a review of the Decent Homes Standard, dating from 2006, and points out that some safety measures, such as electrical safety and energy performance, apply to private landlords do not extend to social landlords.

3.28 In terms of expanding supply and supporting home ownership the paper acknowledges the continued need for new social housing and reaffirms its target of 300,000 new homes by the mid-2020's. The paper proposed to ease borrowing for local authorities to fund social housing building but at the time did not propose any further grant beyond the £2bn already announced. However at the recent Conservative Party Conference the Prime Minster announced the abolishment of the HRA borrowing cap with, awarding local authorities the ability to now build good quality affordable new homes and infrastructure that is needed by their communities. Since this announcement no further information has yet been released.

3.29 Alongside this the Government also published a consultation on options for reforming the restrictions on the use of Right to Buy sales to make it easier for councils to replace properties sold. The proposals include:

- Extending the timeframe for spending RTB receipts from three to five years for existing receipts but keeping the three years for future receipts.
- Allowing flexibility around the 30% cap on the share of the costs of a replacement unit.
- Allowing local authorities to top up insufficient RTB receipts with funding from the Affordable Homes Programme up to 30% of build cost.
- Specific proposals to allow the transfer of land from the General Fund to the HRA at zero cost.
- Temporary suspensions of interest payments
- Proposal to allow authorities to use RTB receipts for shared ownership units

- Restricting use of RTB receipt on the acquisition of property and options to implement through a price cap.

4. The Council's current year financial monitoring

General Fund

4.1 The financial monitoring report for the first quarter of 2018/19 forecasts a significant overspend for the General Fund at the year-end of £717,343. The key variance is the shortfall of car parking income against its budget target of £1,141,000.

4.2 This shortfall in car parking income is the continuation of a trend that began to emerge towards the end of 2017/18 and reflects a reduction in demand for shopper car parking spaces. This is in line with a reduction in footfall in the City Centre and the general decline in high street shopping and the fragility of the retail sector. Longer term though there is forecasted to be an increase in demand for City Centre parking through developments such as the Cornhill Quarter, direct trains to London and further expansion of the University. These future changes and growth over the next few years are set to increase utilisation of the Council's car parks, reducing the shortfall against income targets.

4.3 However, in the short to medium term there will continue to be a shortfall in car parking income against its budget targets. In response to this the car parking income generation strategy has been accelerated in order to boost demand for the Council's car parks. Even with these interventions there is still forecasted to be a budget pressure over the period of the MTFS. Based on assumptions around growth in demand and the impact of the interventions the shortfall against car parking income targets is currently estimated to be as follows:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Current MTFS 2018-23	6,512	6,876	7,256	7,473
Revised forecast	5,373	5,996	6,566	7,047
Decrease in resources	1,138	879	690	426

4.4 In addition to the shortfall in car parking income there are a number of other key variances, including increased costs and a loss of income for the control centre, a loss of income on the apprenticeship scheme, increasing costs in the provision of the Christmas Market and a reduction in income from Housing Benefit overpayments.

4.5 Beyond the current financial year there are also emerging pressures around the central markets lettings income levels and the level of crematorium income should the development of a new facility in a neighbouring district go ahead.

4.6 Whilst mitigating actions and recovery plans are being developed in response to these existing and emerging financial pressures, which when implemented should reduce some of the forecast risk, it is at this stage not clear by how much these risks will be reduced. The position will need to be kept under review during the development of the MTFS as mitigating actions and recovery plans continue to be implemented.

Housing Revenue Account

4.7 The financial monitoring report for the first quarter of 2018/19 forecasts an overspend for the HRA at the year-end of £37,243. The key variances are in relation to an overachievement of rental income, offset by increased expenditure in respect of repairs and maintenance costs for void properties. Both of these variances are as a result of the number of new build properties that are due to be released during the year, and are one off variances. In addition there are a number of vacancies within the service and within the housing repairs services, from which the surplus is repatriated to the HRA. Again this are anticipated to be in year variances, although they will be reviewed as part of the development of the MTFS.

Capital Programme

4.8 The General Investment Programme (GIP) is currently forecasting to have a surplus of capital receipts of £2.845m, subject to completion of a number of schemes. In addition, subject to the completion of the final account there is an anticipated underspend on the contingency budget from the Transport Hub project of approximately £700k. There are however a number of competing demands for the allocation of capital resources including demands to maintain existing assets, particularly income generating assets and claims/disputes from 3rd parties that may require additional resource. In addition there are a number of strategic capital schemes, in line with Vision 2020, that do not yet have the capital resources allocated as well as consideration of invest to save schemes.

4.9 The two key elements of the Housing Investment Programme (HIP), Decent Homes and the New Build Programme continue to progress in line with the current budget expectations with a significant level of expenditure to be incurred during the 3rd quarter of 2018/19 as the purchase of the new build properties are completed. There still remains a significant budget allocation as part of the new build scheme, c£4.1m along with the land acquisition budget of £1.2m which are yet to be allocated to specific schemes in year.

4.10 To date the Council's strategy for new build has been to enter into agreements with Housing Associations and accessing HCA grant funding which has brought additional resource into the HRA. However the implications of accessing this HCA funding does mean that the Council cannot also use any retained Right to Buy (RTB) receipts as these cannot be used to fund such developments. Prudently the Council has not budgeted for one-for-one receipts and treats these as windfall when they arise. The current level of retained receipts, which are required to be spent by 31st March 2019, is £0.778m. If these receipts are not spent by the 31st March then they will need to be returned to MHCLG. This is not a budget pressure but does represent an opportunity forgone. This issue has been previously highlighted in each new build report and given that the level of HCA grant that has been received through the agreements is in excess of the £0.778m it was agreed that it offered better value for money for the HRA, but it is still nevertheless a loss of resource to the HIP. Officers are however continuing to identify opportunities to utilise the receipts available and avoid having to return them, and are also taking into consideration the current consultation on use of RTB sales receipts.

4.11 Both Investment Programmes include a significant amount of capital investment in 2018/19, in addition to the significant sums expended during 2017/18. A large proportion of this, particularly for the GIP has been financed through prudential borrowing and is significant in comparison to the level of General Fund debt prior to 2017/18. It is therefore essential that the type of debt finance, e.g. loan type, maturity profiles, etc., the timing for the issuing of the debt finance and management of the Council's cashflows is carefully managed to ensure that the revenue implications are maximised.

4.12 Paragraphs 4.1 – 4.11 set out budget pressures that have emerged during the financial monitoring of the 2018/19 budgets. In addition there are range of underlying budget assumptions which may give rise to further budget pressures as set out in paragraph 5.6 below.

5. Development of the Budget and MTFS

5.1 In developing the MTFS the Council has to ensure that the correct balance is struck between ensuring that it directs resources towards its strategic priorities in line with the Council's Vision 2020 and ensuring that it maintains a sustainable financial position in the medium to longer term. This balance continues to be difficult with the level of uncertainty surrounding the Councils future funding resources as set out above.

5.2 The Council's Vision 2020 is supported by a three year programme, split into two phases, containing a range of projects that will meet each of the new strategic priorities. In the context of the financial position at the time of launching the new Vision 2020 resources to fund the first phase were made available through the redirection of resources to the priority areas as well as seeking external financial support in the form of grants and contributions. The second phase of the programme contains a number of schemes which are primarily larger scale capital schemes with a significant cost. There are still a small number of revenue schemes which have either been funded from within existing budgets or will be financed using the part of the additional resources generated from the 100% Business Rates Pilot in 2018/19.

5.3 In respect of the General Fund revenue budget, as the resourcing of the Vision 2020 projects is provided for within the current MTFS and in light of the financial pressures that the Council is currently facing and further risks beyond 2020, the focus of the development of the MTFS 2019-24 will be to respond to and mitigate these pressures, limiting the increase required in the savings targets. This will include the prioritisation of earmarked revenue reserves and unallocated capital resources for any invest to save/pump priming projects that will maintain existing income streams or generate news ones.

5.4 In addition to seeking to mitigate the budget pressures and continuing to examine the impact of financial challenges post 2020, the development of the budget and MTFS will include the preparation by the directorates and Financial Services of indicative base budgets. These budgets will be prepared on an incremental basis and will only be updated in accordance with the assumptions highlighted below in para 5.6 and detailed in Appendix A. Officers will also review existing savings and pressures in the indicative base budgets and identify any further new/emerging pressures for consideration. The initial intention will be that any new service pressures identified which have not already been taken account of in the revised assumptions or emerging pressures above will necessitate corresponding additional savings proposals to balance.

5.5 The preparation of the budget and MTFS are based on assumptions for a number of key variables, i.e. business rates, government grants, council tax levels, inflation rates, interest rates, etc. These assumptions are revised on a continual basis in light of the most recent intelligence available and Members should be aware that they will be subject to change as the development of the budget progresses.

5.6 The changes to some of these assumptions create both unavoidable budget pressures as well as the opportunity to realise savings. The main changes to the assumptions for the General Fund, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Inflation	0	(14)	(18)	(21)
Council Tax	(59)	(60)	(62)	(64)
New Homes Bonus	134	274	414	553
Car Parking Shortfall	1,138	879	690	426
Total changes in assumptions	**1,213**	**1,079**	**1,024**	**894**

5.7 Whilst the indicative projections above identify a reduction in financial resources of c£1m p.a., it is important to note that these projections do not include the financial pressures that have emerged during 2018/19, other than car parking income, as set out in paragraph 4.4. Whilst mitigating action is being taken in respect of these pressures in order to reduce the forecast risk there may be some impact on the underlying budgets, particularly in 2019/20. Additionally they do not include any impact of any of the changes in local government finance set to take effect from 2020/21 other than a partial re-set of the Business Rates Retention scheme.

5.8 The Council has a successful track record in delivering savings and over the 10 year period since the onset of austerity measures has delivered savings in excess of £7.5m, a significant reduction in comparison to the overall net expenditure. The Council's approach has centred on planning ahead, securing savings in advance, re-investing in more efficient ways of working and adopting a more commercial approach whilst making careful use of reserves to meet funding gaps, it's an approach that has served the Council well. Although inevitably there has had to be some withdrawal of services the Council has tried to keep this to a minimum and has sought to protect its core services that matter most.

5.9 Despite this success the Council now faces the need to reduce its levels of expenditure further or identify additional resources if it is to remain financially sustainable. The forecast deficit in 2018/19 is being mitigated in part by the use of reserves (both general and earmarked), which by their nature are one off and cannot be used on an ongoing basis to resolve the deficit. Use of the reserves also leaves the Council vulnerable to future fluctuations in income and expenditure levels. The strategy to be adopted to redress the deficit also needs to ensure that reserves are sufficiently replenished over the period of the MTFS.

5.10 The current MTFS is predicated on a savings target for 2018/19 of £3.85m, this increases to £4.15m in 2019/20 and to £4,25m in 2020/21. Progress has been made towards the target for 2018/19 although there is a small shortfall of £13k. For 2019/20, the current programme is set to deliver the required gap of £59k. These targets do not yet provide for the increase that will be required in order to maintain a balanced budget.

5.11 The TFS programme is and continues to be the vital element in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget. The programme consists of three agreed strands to achieve savings. These are:

- Commercialisation – optimisation of usage and commercial returns of the City's property and land portfolio
- Asset Rationalisation – generation of new income streams, and commercial trading opportunities
- Shared Services/ savings – ensure the provision of professional, high performing services.

Alongside this programme the Council also seeks ways to maximise its tax based through economic development measures.

5.12 Progress, as at September 2018, in delivering the target savings from the Towards Financial Sustainability Programme is set out in the table below:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
MTFS savings target	**3,850**	**4,150**	**4,250**	**4.250**	**4,250**
Secured	3,837	4,091	4,131	4,156	4,167
Savings still required in MTFS	**13**	**59**	**119**	**94**	**83**
Still subject to approval or review/Business Case	31	121	180	181	178
Forecast overachievement	**(18)**	**(62)**	**(61)**	**(87)**	**(95)**

The delivery of the current strategy and programme will leave the Council in the position of overachieving the current savings targets.

5.13 However, in light of the financial pressures identified above it is apparent that the savings targets will need to increase in order to ensure that the Council maintains its sound financial position. The actual budget gap will only become clearer over the forthcoming months as subsequent government announcements are made, mitigating action is taken, and as further key data and information is available. Revised financial modelling and scenario planning will continue in order to determine the exact impact of the changes as soon as possible and will be used to inform the development of the MTFS.

5.14 In anticipation of a required increase in the TFS targets, officers have already commenced the process of developing the next phase of TFS reviews and initiatives. Part of this process involves a review of the key strands of the TFS programme to ensure they remain the key areas on which activities should be focussed as well as developing the individual proposals that sit beneath them. The development of this next phase of reviews will run concurrently with the development of the MTFS.

Housing Revenue Account

5.15 A key element of the HRA self-financing regime is the Council's 30 year Business Plan. The Council's latest Housing Revenue Account Business Plan 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The Business Plan reflects the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition
- identifies resources for building new council dwellings.

The current Business Plan is scheduled for review during 2019, post completion of the current new build programme. Pending this refresh the MTFS will continue to be based on the approved Business Plan, updated for revised financial assumptions (as outlined in Appendix A), any relevant government policy changes, updated development and investment profiles and other emerging service factors. Although consideration will be given to the possibilities created by the lifting of the borrowing cap in the new MTFS the bigger impact of this flexibility will be reflected in the new Business Plan.

5.16 The changes to some of these assumptions create both unavoidable budget pressures as well as the opportunity to realise savings. The main changes to the assumptions for HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Rental income – collection rates	285	294	302	311
Total changes in assumptions	**285**	**294**	**302**	**311**

Capital Strategy

5.17 The development of the GIP for 2019-24 will predominately focus on prioritising the unallocated capital receipts and unspent contingency as set out in paragraph 4.8. The budget process will identify how these resources are to be applied to schemes focussing on those that are included in Vision 2020, those that generate new revenue streams and/or maintain existing streams and those schemes that are responding to contractual issues. Given the scale of a number of the schemes, e.g. Western Growth Corridor the level of resources available for allocation will not be sufficient to fully fund these. Other sources of funding such as grant allocations, partner contributions will continue to be sought as well as assessing the use of prudential borrowing, specifically for schemes that generate a revenue return sufficient to cover the cost of borrowing. The development of the GIP will therefore predominately focus on the Council's key strategic schemes and the treasury management activity required to support the financing.

5.18 The development of the HIP for 2019-24 will be in line with the current HRA Business Plan as per paragraph 5.15 above.

5.19 The culmination of the above processes will result in a set of budget proposals, including a revised savings targets that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.20 The Council is under a duty to annually consult externally as part of its council tax setting process. Therefore consultation will be undertaken in January 2019 but will be primarily based on an online survey, the key purpose of which will be to;

1. Highlight the proposed budget and Council Tax for 2019/20, seeking views on the proposed increase.

2. Outline the likely scale of longer term financial challenges facing the Council beyond the 2019/20 financial year.

5.21 In addition to the public consultation the Council will also consult directly with the business community through engagement with, the Lincolnshire Chamber of Commerce, Breakfast Clubs and Healthy High Streets.

5.22 Following the success in recent years of the all Member workshops and Budget Scrutiny process a similar process will be followed in early 2019 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.23 A financial planning timetable to deliver a balanced and affordable five year revenue budget strategy and capital programme, in line with the Vision 2020, is attached at Appendix B.

6. Significant Policy Impacts

6.1 The Medium Term Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

6.2 The consultation proposals for the draft budget and Council Tax proposals are as set out in paragraph 5.19-5.21.

6.3 This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2019/20 there may be an impact on certain council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document a separate equality impact assessment will not been undertaken for the MTFS 2019-2024.

7. Organisational Impacts

7.1 The financial implications are as set out in the report.

7.2 The Council is required under statute to fix the level of Council Tax for 2019/20 by 11th March 2019 and in order to do so will have to agree a balanced budget by the same date.

7.3 There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

7.4 Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council's Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are considerable risks to the Council's medium/longer term budget strategy as a result of the volatility of business rates, the current economic climate, legislative change, demands for new spend, existing budget pressures and the further significant changes to local government finance post April 2020. The budget process includes the recognition of these risks in determining the 2019/20 budget and MTFS, but it is imperative that the Council continues to build upon its record of delivering significant savings and maintains the strong focus on its Towards Financial Sustainability Programme.

9. Recommendation

9.1 Executive are asked to;

a) note the significant financial challenges that the Council faces,

b) note the projected budget parameters for 2019/20 and future years and note the planning assumptions, as set out in Appendix A,

c) note the budget, strategic and service planning preparation programme, set out in Appendix B.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
If Yes, how many Appendices?	Two
List of Background Papers:	Medium Term Financial Strategy 2018-23
Lead Officer:	Jaclyn Gibson Chief Finance Officer Telephone 873258

APPENDIX A

KEY BUDGET ASSUMPTIONS MTFS 2019 – 2024

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention (BRR) scheme was introduced by the government in April 2013 and replaced an element of grant funding. The calculation of income to be received through the BRR scheme is critical in determining the amount of resources that the Council will have available to fund local services.

2.2 Although the Council had forecasted and declared a surplus on its share of business rates in 2017/18 of £511,830, on the basis of the in-year monitoring position, by the time of closing the 2017/18 accounts the situation had deteriorated slightly with a reduction in the surplus of £135,414 to £376,416. In relation to the business rate base for 2018/19 this was estimated to be £43.387m. Movements in this base are monitored on a monthly basis so that the Council has an early indication of any significant changes. Although it is still early in the financial year, monitoring to date shows that there has been an increase in the number of hereditaments claiming Empty Premises Relief, which is impacting on the overall level of business rates to be retained. Without taking into account the latest position on appeals the current level of business rates to be retained by the Council is £245,450 below that anticipated in the budget.

2.2 Given the volatility in the retained business rates income and increased financial risk inherent in the scheme, the Council has set aside an earmarked reserve to cushion the impact of fluctuations in retained income and collection fund deficits. The current balance on the reserve is £538,799 which provides financial capacity to resource the deficit of £135,414 from 2017/18 with a balance of £403,385 to resource a deficit in 2018/19 if this be declared as part of the budget setting process. It will though be essential that the Council seeks to replenish this reserve to provide for future fluctuations.

2.3 The Council also continues to face pressures due to the impact of appeals. Although the cut-off date for appeals against the 2010 list was 31st March 2015 there still remains a significant proportion of appeals to be settled by the Valuation Office, which the Council is required to set provisions aside for. The current provision for appeals against the 2010 list is £5.6m. From 2017 a new ‘Check, Challenge and Appeal’ system came into effect for the 2017 list. The impact of this new process is as yet unknown although it is anticipated to discourage the number of appeals within the system that are unlikely to ever result in a reduced rateable value. This new process also means the Council is not made aware of any lodged appeals until it gets to the appeal stage – any at ‘Check or Challenge’ stage are unknown and therefore cannot be accounted for. To date the Council has not yet received any appeals against the list, however a prudent provision of £2.041m has been set aside, bringing the total provision for appeals to £7.641m, of which the Council's share is £3.057m. The settlement of appeals has a two-fold impact on the Council: the pay back of retrospective 'overpayments' and the ongoing effect of a lower receipt in future years – a permanent depreciation of the business rates base.

2.4 It is hoped that once the 2010 appeals are finally cleared the Council will see the benefits from the increase in the underlying base, but it remains to be seen whether this will outweigh the permanent ongoing cost of successful appeals and whether the 2017 revaluation will simply start this process over again.

2.5 The current MTFS assumes growth (above RPI/CPI from 2020/21) in the annual level of local Business Rates collected will be 1% pa in 2019/20 increasing to 2% pa from 2020/21 onwards. This increase in growth levels towards the end of the MTFS planning period was to reflect some of the major developments scheduled to be undertaken in the City which should result in business rate growth in the medium term.

2.6 As set out in the main body of this report, the Council is currently part of a 100% Business Rates Pilot for 2018/19 and has submitted a bid to be a 75% pilot for 2019/20. If the pilot bid for 2019/20 is unsuccessful then the 2nd option is to reform a business rate pool along with the County Council and six other Lincolnshire District Councils. Although a pool would on the basis of the current 50% retention scheme, the benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. In previous years when a pool has been in operation this retained levy has been allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. At this stage in the preparation of the MTFS as it is speculative as to whether a 75% pilot will be approved then it will be assumed that a Lincolnshire pool will instead be created. 2019/20 will be the final year that pools will exist and the MTFS already assumes that there will be no further pooling gains from 2020/21 onwards.

2.7 Again, as set out in the main body of this report as part of the move to a 75% retention scheme in 2020/21 business rate baselines will be adjusted to better reflect how much local authorities are actually collecting in business rates. This could potentially see all growth built up since the launch of the current system in 2013/14 stripped away from the Council at the start of 2020/21. The current MTFS was prepared on the basis of a partial reset with the Council retaining 25% of the growth it has achieved since 2013/14. As there has been no further guidance issued in respect of the reset the revised MTFS will continue to be prepared on this basis.

3. Revenue Support Grant

3.1 The Council still continues to receive an element of Revenue Support Grant (RSG) to top up business rate income, but this has been significantly reducing over the current 4 year funding settlement period, to 2019/20, at which point the introduction of 75% BRR is due to come into effect.

3.2 The RSG element of the settlement shows a dramatic reduction in the level of grant received, with the allocation falling from £2.585m in 2015/16 to just £0.022m in 2019/20, a reduction of 99.1%. The speed and severity of this reduction was not only as a result of the anticipated reductions in local government funding but also due to unexpected changes in the methodology used to calculate the distribution of the grant. This revised approach to distribution takes into account the tax raising ability of the authority and also the type of services it delivers, these factors appear to have favoured upper tier authorities, facing social care pressures, at the detriment of district councils.

3.3 The MTFS will assume that the level of RSG for 2019/20 will be as per the 4 year settlement, i.e £0.022m. Beyond this it be will assumed that there will be no further RSG payable by the Government.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as the principle means of raising revenue makes decisions taken in respect of in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates have remained buoyant with an in year collection rate for 2017/18 of 97.17%, an increase of 0.08% from 2016/17. Furthermore, the reported collection rate does not include the collection of previous year’s arrears, typically about 35%-40% of the arrears are collected each year.

4.3 The current collection rates assumed in the MTFS were set at 98.75% p.a. Based on the performance of the collection rates during 2017/18 and year to date in 2018/19, and the current position of the Collection Fund, it is considered reasonable at this point to continue with assumed collection rates to 98.75% p.a. These will however be kept under review.

4.4 In calculating the Council Tax base the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council’s Local Council Tax Support (LCTS) scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax.

4.5 Since the introduction of the scheme in 2013/14 the number of claimants has decreased by 20% over the period, with a reduction of 4% from 2017 to 2018. This overall reduction has been a reflection of a national picture for rollout of Universal Credit and drops in unemployment levels, with unemployment currently running at 4.2%, a 33 year low. The OBR had previously forecasted that claimant numbers were likely to plateau out and would not reduce as significantly the 4 year settlement period, although no national forecasts have been made since the Spring Budget 2017. The MTFS currently assumes that from 2019/20 the number of claimants will remain stable. However on the basis that the full service roll-out for UC will continue to gain momentum in Lincoln, during 2018 and 2019, the MTFS will be prepared on the basis of a reduction in the working age claimant caseload of 1% in 2019/20 with a constant caseload being maintained thereafter.

4.6 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place from 1st November for 6 weeks. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval.

4.7 The current MTFS assumes an annual increase in the council tax base of 1.25% as a result of new property development. The revised MTFS will continue to be based on these assumptions.

4.8 In announcing the local Government Finance Settlement: Technical Consultation, MHCLG also set out the Government's Council Tax principles for 2019/20. These appear to be in line with those announced for the 2018/19 settlement, that being a 3% or £5 limit (whichever is higher) for district councils.

4.9 In light of the financial positon of the Council and mindful of the consultation on the referendum thresholds for 2019/20, it is assumed that for planning purposes a Council Tax increase of 2.95% will be applied for 2019/20 reducing to 1.90% pa thereafter. This is in line with the assumptions in the current MTFS.

4.10 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are as follows:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Current MTFS 2018-23	6,679	6,907	7,141	7,383
Revised forecast	6,738	6,967	7,203	7,447
Increase in resources	59	60	62	64

5. Other Government Grants

5.1 In addition to RSG the Council also received a number of specific grants including the New Homes Bonus (NHB) and Housing Benefit/Council Tax Support Administration Grant.

5.2 <u>New Homes Bonus</u>

The NHB was introduced in 2011/12 with the intention of encouraging the development of new homes. As at 2018/19 the Council were in receipt of £1.006m, a significant proportion of the Council's overall income sources. This position is not dissimilar for many other shire districts, who as a type of authority are the biggest net beneficiaries of the scheme to date.

5.3 In December 2016, the Government announced it was changing how NHB amounts would be determined and how long they would be paid for. This saw a phased reduction in the number of years payments were made with payments now made for four years rather than six originally. It also saw the introduction of a deadweight growth, where only growth above the deadweight is rewarded with a bonus. This was introduced to ensure that the total amount due to local authorities stayed within the lower overall funding envelope for the scheme. For 2017/18 and 2018/19 the deadweight was set at 0.4%, meaning that only local authorities with growth above 0.4% received an in-year allocation and only for growth above the deadweight.

5.4 The Local Government Finance Settlement: Technical Consultation suggests that the deadweight will need to increase for 2019/20 to ensure that the scheme does not overspend. It does not state by how much this is forecast with the amounts to be announced at the provisional settlement stage. The consultation also suggests that for 2020/21 the Government intends to explore how to incentivise housing growth most effectively, referencing the Housing Delivery Test results. The Government intends to consult widely on any changes prior to implementation.

5.5 Without any further information it is difficult to assess the implications for the MTFS. Whilst a different form of reward may have similar allocations the reference to changing the means of assessment suggest that NHB in its current form will not survive post 2019/20. It also raises a question as to whether the legacy payments will continue through until their end.

5.6 Using the latest data available, as at September 2018 and assuming a deadweight of 0.4%, the Council could receive and allocation of approximately £63k for 2019/20. This estimate is lower than in previous year and reflects that there has been growth in properties however this has been offset by an increase in long term empty properties. It should be noted that the final NHB allocation will be based on the number of properties on the Valuation Office schedule as at 10th September and that the majority of the new build properties the Council is delivering will not be released until after this date. In terms of long term empty properties the current September figures show an increase from 2017 of 60 properties.

5.7 With a lack of further clarity on the future of the NHB estimating future grant levels is extremely difficult. If the MTFS were to prudently assume that the current NHB scheme ceases beyond 2019/20, but that the legacy payments continue for a 4 year period the estimated level of grants would be as follows:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/22 £'000**
Current MTFS 2018-23	867	789	538	617
Revised forecast	734	515	124	63
Decrease in resources	134	274	414	553

This still assumes that a national deadweight of 0.4% remains and is not increased in the final year, 2019/20. The MTFS will currently be prepared on this basis, with any further Government consultations/announcements modelled as they occur,

Housing Benefit/Council Tax Support Admin Grant

5.8 It continues to be difficult to forecast the likely level of future funding in respect of Housing Benefit Admin Grant due to the continual delay in the roll out of Universal Credit (UC). The Council has begun roll out of the full service for UC in March 2018. Full Service is available to all new UC claims previously eligible for the six separate benefits. All new UC claimants will have their housing cost element included in their monthly UC payment which will be administered by the DWP, and as a result, they will not make a Housing Benefit claim but can still make a claim for Local Council Tax Support. After this, the migration of all remaining existing claimants to full UC is set to begin in July 2019, completing in March 2023 (this was recently pushed back from 2022). There is still much debate and decisions to be made by the Government as to what role local authorities will play in the longer term delivery of UC but there is a commitment from the DWP to work with authorities until at all working age claimants are transferred, 2023 at the earliest.

5.9 Although this commitment has been made the DWP have yet to announce a permanent funding model going forward. For both 2017/18 and 2018/19 Grant Funding Agreements with individual local authorities have been in place via a Grant offer for Universal Support which for the Council in 2018/19 had a value of £15,700 with an additional £11,800 for UC implementation support. For 2018/19 the Council's main Administration Grant reduced by 10% in respect of the roll out of UC and in line with the reductions in the DWP's baseline funding. In addition the Council continues to receive New Burdens funding which is allocated on an annual basis. Furthermore, the Council also receives a grant from the MHCLG in respect of the Council Tax Support element of administration funding, this reduced by 6% in 2018/19 and was allocated on the basis of caseload data.

5.10 Beyond the current years funding there is no clearer position on what future grant levels are likely to be and the Council faces an annual wait for funding announcements to be made. At this stage the MTFS will be prepared on the basis of the current level of grant funding, which may ultimately be received through a combination of Administration Grant, Partnership Agreement and any New Burdens funding. Once the grant allocations are announced due regard will need to be taken of this in terms of the service planning for the revenues and benefits service.

6. Inflation

6.1 CPI forecasts are that it is likely to continue to fall during 2018 from 2.4% in August 2018 to 1.8% in 2019, before settling to 2% from 2020 onwards, back in line with the Government's target rate of 2%. In respect of the general inflationary increase applied within the MTFS this is normally maintained in line with CPI projections. The current MTFS assumes a 2% p.a., in light of these latest forecasts it is not proposed that his assumption be changed at this time. This excludes inflation on general running expenses which historically have had no allowance for inflation; there is no change in this assumption.

6.2 Annual price increases in a number of the Council's contracts are linked to RPI or RPIX at a defined date in the year, primarily December and March. The latest forecasts are that RPI will fall back down from 3.5% in August 2018, to 3% in 2019, with a longer term forecasts remaining at around 2.9% - 3% thereafter. The current MTFS had been based on the assumption of a 3.2% RPI increase for 2019/20 – 2022/23. This will now to be decreased to a 3% increase in 2020/21 and thereafter. The impact of the change in the assumed rate of RPI over the period of the current MTFS equates to reduction in total expenditure of only c£20k p.a. for the General Fund, with a negligible saving for the HRA.

7. Pay

7.1 The current budget estimate for 2019/20 assumes a 2% pay award, this is in line with the agreed average pay award of 2% p.a. for the two year period from April 2018, but with a higher increase of more than 15% for the lowest paid staff. Changes to the national pay spine in 2019/20 were also announced as part of the recent Local Government pay settlement to accommodate the Government's National Living Wage increases going forward. Whilst not expected to be significant in terms of increased costs the impact on the MTFS is being modelled by Finance and HR officers.

7.2 The revised MTFS will continue be prepared on the basis of further pay awards of 2% p.a. for the period 2020/21 – 2023/24, in line with the current assumptions.

7.3 In addition to this the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government's National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. It is not proposed to change this assumption at this stage, however there remains a risk that if inflation increases significantly there may be pressure on the increases to be awarded to maintain the Living Wage.

8. Local Government Pension Scheme

8.1 The last triennial review of the Council's Pension Fund took place as at 31 March 2016 and the results identified that there had been a slight increase in the funding position since the last actuarial review from a 67% funding level to 70%.

8.2 Having assessed the events that have affected the fund since the previous valuation as at 31 March 2013 the actuary formulated an approach to the 2016 valuation that incorporated this information into its long term assumptions for the fund. Although the overall funding position had improved slightly the employer contribution rates were increased to improve the funding position further. For employers such as local authorities, the actuary, because of the guaranteed nature of the funding, was able to recommend a stabilisation approach whereby the employer contribution is capped at an affordable level. This has allowed the contribution rate to be capped at 1% p.a. for the three years covering the valuation period 2017/18 – 2019/20.

8.3 A further actuarial review will take place in April 2019, which will inform the employer contribution rates from 2020/21. Beyond 2019/20 the current MTFS does not assume any further increases in employer contributions and at this stage the revised MTFS will continue to be prepared on this basis.

9. Fees and Charges

9.1 The MTFS will, at this stage, be prepared based on the existing income budgets, allowing for an overall increase of 3% per annum in the total yield from fees and charges. This does not preclude individual fees and charges being increased by more or less than 3%. This increase of 3% per annum is in line with the projections for RPI used for the Council's contractual commitments. The MTFS will therefore be prepared on the current assumption of a 3% increase in overall yield per year.

10. Investment Interest

10.1 The Council continues to experience significantly low level investment rates due to the low Bank Base Rate, although the increases of 0.25% in November 2017 and August 2018 have led to a slight improvement in returns. The Base Rate is now at its highest level for almost a decade and the market is now predicting that the Bank of England will raise interest rates up to two more times before the end of 2019. By 2021 the Base Rate is predicated to have risen to 1.25%. These forecasts, (and the Bank of England decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year, and in particular how the Brexit negotiations conclude.

10.2 Whilst the Bank of England Base Rate has increased recently to 0.75% this does not affect investments already made and the overall level of increase is not reflected in the rates available for new investments. Further decreases in the average cash balances available for investment are anticipated as the council balances the cost of borrowing against low levels of investment income, using internal borrowing where possible. The impact of the change in these assumptions has been negative in future years with an overall reductions in resources currently being forecasted. The latest forecasts in comparison to those assumed in the current MTFS, are as follows:

	2018/19	2019/20	2020/21	2021/22
Revised Average Investment Rate	0.71%	0.79%	0.85%	1.00%
Current MTFS	0.52%	0.61%	0.76%	0.90%
Revised estimated Average Investment Balances	£17m	£15m	£15m	£15m
Current MTFS Average estimated Investment Balance	£15m	£21m	£19m	£22m
Revised interest earned	£103k	£100k	£108k	£124k
Current MTFS	£60k	£115k	£132k	£183k
Increase/(Decrease) in resources	£43k	(£15k)	(£24k)	(£59k)

Although there is a forecast reduction in the level of investment income, as this is primarily due to the use of cash balances in replacement of external borrowing, there is a consequent reduction in the borrowing interest costs. At this stage in the development of the MTFS there is still work to be undertaken to revise the borrowing strategy and subsequent borrowing costs so it is not yet possible to estimate the revenue implications. The above reduction in resources is expected to be mitigated through a reduction in borrowing costs and as such does not present a current budget pressure for the MTFS.

11. Housing Rents

11.1 The current MTFS and revised HRA Business Plan 2016-2046 have been prepared on the on the basis of a 1% p.a. rent reduction between 2017/18 and 2019/20 and assumes that from 2020/21 social rents will increase by CPI+1% p.a. This increase from 2020/21 is in line with the Government's announcement in October 2017 followed by a consultation paper in September 2018, that from April 2020 social rents will increase by CPI+1% for 5 years. The approach beyond 2025 remains uncertain but there is an expectation that social rent increases will remain. Budgeted increases for supported accommodation continue to be assumed on the same basis.

11.2 During 2018 the Council, in partnership with a number of Housing Associations, is set to acquire 172 new build properties. These properties have been partly financed from HCA grants a condition of which is that they are to be let on the basis of an affordable rent rather than on social rents. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents, and will continue to be developed on this basis.

11.3 At the end of 2017/18 rent collection levels where at 99.68%. Collection rates for 18/19 have reduced as a result of the roll out of Universal Credit (UC), with performance for the first quarter of 97.56%. Although this has reduced it is still above the target for the year of 96.50%. Officers are working hard to minimise the effect delays in tenants receiving their first UC payment may have and ongoing campaigns and early intervention to address rent arrears continue to have positive effects. The current MTFS assumes a collection rate of 99% p.a., however in light of the impacts of UC it would be prudent to reduce this assumption as part of the revised MTFS. A 1% reduction in the assumed collection rate to 98% would result in an approximate loss of income of £285k p.a.

12. **Level of Revenue Reserves** – The management of our reserves and balances remains crucial over the MTFS. The prudent minimum level of reserves for the General Fund has been increased in recent years in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed. At this stage it is assumed that the optimum level of reserve holdings needed to meet the requirements of a working balance and contingency will remain at these increased levels, between £1.5m - £2m for the General Fund, and at £1m for the HRA.

APPENDIX B

BUDGET AND FINANCIAL PLANNING TIMETABLE 2019/20

No.	Target Date	Completed	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**				
1.1	29th Jan 18		All Members	All member workshop presenting the draft budget proposal for 2018/19 and Medium Term Financial Strategy 2019-2024.	CFO
2.	**Base Budget Preparation**				
2.1	17th Sept 18		AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	5th Oct 18		AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	2nd Nov 18		DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	26th Nov 18		CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of existing capital programme and consideration of allocation of resources to strategic schemes/contingencies.	FSM
2.5	4th Dec 18		CMT	Review of Fees & Charges Schedules for 2019/20	FSM
2.5	14th Dec 18		Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.6	8th Jan 18		CMT	Review of draft budget proposal for 2019/20 and Medium Term Financial Strategy 2019-2024.	CFO
3.	**Service Planning Preparation**				
3.1	17th Oct 18		CLT	Service planning for 2018/19 launched with a focus on delivering progress against the strategic priorities in Vision 2020	Policy Team

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No.	Target Date	Completed	Group	Deliverable	Responsible Officer
3.2	25th Oct 18		SM Forum	Service planning for 2018/19 launched with a focus on delivering progress against the strategic priorities in Vision 2020	Policy Team
3.3	Oct – end of Dec 18		DMT's	Agree top 10 priorities for the year ahead, arising from their service areas and from the Vision 2020 year 1 (incomplete) and year 2 projects, reconciling any conflicts and addressing any resulting budgetary issues (emphasis remains on achieving savings)	Directors/ AD's (Incl. Planning)
3.4	Mid-Jan 19		Portfolio Holder meeting	Discussion on the priorities emerging out of service planning and the strategic priority themes above, with Portfolio holders	Directors
3.5	5th Feb 19		CMT	Agree the likely priority projects across each directorate.	AD-SD/Policy Unit
3.6	28th Feb 19		EDMT's	Draft their service plan for the year ahead reflecting the projects from the strategic priority themes - negotiating directly where there is a resource impact on other directorates	AD's
3.7	4th Mar 19		DMT's	Draft service plans completed and agreed with Director.	AD's
3.8	13th Mar 19		CLT	Key corporate activity extracted from service plans to provide AD group and CMT with overview. Also check that service plans adequately reflect the project commitments contained within each of the strategic priority themes	AD-SD/Policy Unit
3.9	28th Mar 19		SM Forum	Update on progress with Service Plans for information	Policy Unit
3.10	31st Mar 19		Authority-wide	Service plans published.	Policy Unit
3.11	Jul 19		CLT	Development of new Strategic Plan starts. Schedule to be developed	CLT/ Strategic Project Mgr

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No.	Target Date	Completed	Group	Deliverable	Responsible Officer
3.12	Oct 19		AD's/ Service Managers	Service planning for 2020/21 launched with a focus on delivering progress against the new strategic priorities	Policy Unit
4.	**Consultation and Scrutiny**				
4.1	Jan/Feb 19– *dates to be confirmed*		General Public Stakeholders	Online budget consultation Specific stakeholder events	CFO CMT
4.2	6th Feb 19		Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2019/20 and Medium Term Financial Strategy 2019-2024, making any recommendations to the Executive.	CFO
4.3	12th Feb 19		Audit Committee	Consider and review: • Prudential Indicators 2019/20-2022/23 • Treasury Management Strategy 2019/20 with responses to the Executive	FSM
4.4	21st Feb 18		Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**				
5.1	24th Sept 18		Executive	Consideration of the budget strategy to be adopted for the 2019/20 process, including; • Assessment of 2018/19 budget monitoring • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO
5.2	17th Dec 18		Portfolio Holders	Asessment of Fees & Charges Schedules for 2019/20	FSM
5.3	7th Jan 19		Executive	Approval of Council Tax Base for 2019/20, Council Tax Support Scheme 2019/20 and Estimated Collection Fund Balance for 2019/20 for Council Tax.	FSM/HSRB

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No.	Target Date	Completed	Group	Deliverable	Responsible Officer
5.4	14th Jan 19		Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.5	21st Jan 19		Executive	Approval of a draft budget proposal for 2019/20 and Medium Term Financial Strategy 2019-2024 for formal consultation.	CFO
5.6	21st Jan 19		Executive	Approval of Business Rate Base for 2019/20 and Estimated Collection Fund Balance for 2019/20 for Business Rates.	FSM/HSRB
5.7	21st Jan 19		Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2019/20.	AD-H
5.8	22nd Jan 19		Council	Approval of Council Tax Base for 2019/20 and Council Tax Support Scheme 2019/20.	FSM/HSRB
5.9	25th Feb 19		Executive	Approval for referral to Council of: • Final budget proposals for 2019/20 • Medium Term Financial Strategy 2019-2024 • Treasury Management Strategy 2019/20 & Prudential Indicators • Council Tax levels for 2019/20 • Fees and Charges levels for 2019/20	CFO
5.10	26th Feb 19		Council	Approval of the Housing Rent Levels for 2019/20.	AD-H
5.11	26th Feb 19		Council	Approval of; • Final budget proposals for 2019/20 • Medium Term Financial Strategy 2019-2024 • Treasury Management Strategy 2019/20 & Prudential Indicators • Council Tax levels for 2019/20 • Fees and Charges levels for 2019/20	CFO