

 Executive 30 November 2016		Agenda Item No. 3
Title	General Fund base budgets latest 2016/17 and original 2017/18	
For further information about this report please contact	Marcus Miskinis Marcus.miskinis@warwickdc.gov.uk 01926 456804	
Wards of the District directly affected	None	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number		
Background Papers	Executive 2 June 2016 –Fit For The Future Change Programme; Executive 27 July2016 – Budget Review to 30 June 2016; Executive 28 September 2016 – Fees and Charges 2017/18; Executive 2 November 2016 – Budget Monitoring to 30 September 2016	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	No
Equality Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	8 Nov 2016	Andrew Jones
Head of Service	8 Nov 2016	Mike Snow
CMT	8 Nov 2016	Chris Elliott, Bill Hunt
Section 151 Officer		Finance Report
Monitoring Officer	8 Nov 2016	Andrew Jones
Finance	n/a	Finance Report
Portfolio Holder(s)	10 Nov 2016	Clr Whiting
Consultation & Community Engagement		
None		
Final Decision?	Yes	

1. Summary

- 1.1 This report sets out the latest projections for the General Fund revenue budgets in respect of 2016/17 and 2017/18 based on the current levels of service, and previous decisions. There are further matters that will need to be reviewed in order to finalise the base position as part of the 2017/18 budget setting process as set out in paragraph 8.5.
- 1.2 The 2016/17 latest budgets show a forecast surplus of £169,300 before any appropriations.
- 1.3 The proposed 2017/18 Base Budget currently shows a surplus of £97,200.

2. Recommendations

- 2.1 To recommend to Council:
 - (a) the base budget for the General Fund services in respect of 2017/18 as outlined in Appendix 'B';
 - (b) the updated budget for the General Fund services in respect of 2016/17 as outlined in Appendix 'B'.
- 2.2 To note that the 2016/17 budget will be subject to detailed review over the coming months and that an updated position will be reported to members in February 2017, together with any recommendations on appropriating any surplus or funding any deficit and consideration of any implications for the 2017/18 budget.

3. Reasons For The Recommendations

- 3.1 The Council is required to determine its budget requirements in order to set the Council Tax for 2017/18.
- 3.2 As part of the Service Planning Process and through Budget Reviews, the Senior Management Team has identified significant savings that can be incorporated within the 2017/18 base budget, as detailed in section 9 and 10 of this report.
- 3.3 The latest budget estimate for the 2016/17 Budget shows a surplus over the original Base Budget of £169,300, as detailed in section 12. Further detailed monitoring of the 2016/17 budget will be undertaken prior to the February Budget setting report being presented to members. That report will make recommendations, as appropriate, as to how any surplus will be appropriated (or, potentially, any deficit funded).
- 3.4 The proposed 2017/18 Base Budget presents a budget surplus of £97,200 in the Council's expenditure in continuing to provide its services and meet its commitments. Any changes to the overall position, including any necessary as a result of further consideration of the 2016/17 budget outturn, will be considered within the February Budget report.

4. Policy Framework

4.1 Policy Framework

The General Fund latest base budget 2016/17 and original budget 2017/18 report form part of the Budgetary Framework of Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February and Budget Reviews in July and November.

4.2 Fit For the Future

One of the key elements of Fit For the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. Details of the financial projections for future years and savings required to be found were reported to members in June, with the updated Medium Financial Strategy considered in Section 15.

4.3 Impact Assessments

The Council's Budget covers the community throughout the District. It is a statement of fact and officers will have considered any impact prior to amending their budgets.

5. Budgetary Framework

5.1 Securing savings and balancing its Budget will enable the Council to deliver its aspirations and priorities as well as core services. The Financial Strategy underpins all of its other strategies.

5.2 Members are reminded that the 2017/18 Council Tax will be set in February after budgets are finalised. The Executive has previously stated that it intends to set a £5 council tax increase to Band D for 2017/18, subject to any limits imposed by Central Government.

5.3 In 2016/17 there will be an additional revenue cost relating to the Leisure Centres reduced income during refurbishment work at Newbold Comyn and St. Nicholas Park totalling £484,000, which has been funded from the Leisure Options Reserve. Increased expenditure in 2017/18 following the transfer of the Leisure Centres is estimated at £28,600.

5.4 The Council's Medium Term Financial Projections include net inflation for most services for 2017/18 at 0%. An inflation allowance of 1.8% has been included for National Non-Domestic Rates, 0.8% for the major contracts and an increase in the general inflation contingency of £50,000 to allow for other unavoidable price increases. In addition, there is also a 1% increase allowed for salaries.

6. Risks

6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.

- 6.2 The main sources of income which may be subject to reductions include:
- Government grant (e.g. Revenue Support Grant, Benefits Administration Grant);
 - Business Rates Retention;
 - Fees and charges from provision of services;
 - Rent income;
 - Investment interest.

Whilst reductions have been factored in to the estimated Revenue Support Grant, in line with the 4 year settlement announced last January. However, there may be subsequent announcements between now and a final determination in January.

- 6.3 Increased expenditure in service provision may be due to:
- Inflation and price increases for supplies and services;
 - Increased demand for services increasing costs;
 - Changes to taxation regime;
 - Unplanned expenditure;
 - Assumed savings in budgets not materialising.

- 6.4 Triggers for increased costs or reduced income include:
- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
 - Unplanned expenditure, e.g. costs from uninsured events, costs of planning appeals or other legal process;
 - Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
 - Changes to assumptions underpinning the Medium Term Financial Strategy – these assumptions are closely monitored.

- 6.5 Many controls and mitigations are in place to help manage these risks. These include:
- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, regular Budget Review reports are issued to the Executive and Senior Management Team.
 - Financial Planning with the Medium Term Financial Strategy / financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
 - Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
 - Project Management and associated controls.
 - Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding).
 - Risk Management process across the Council, including the on-going review and maintenance of risk registers.
 - Scrutiny by Members of the Council's finances, including Budget Reports, and the financial implications of all proposals brought to them for consideration.
 - Within the 2016/17 budgets there is a Contingency Budget with an uncommitted balance of £59,600 for any unplanned unavoidable expenditure
 - Reserves – whilst much of these Reserves have already been earmarked

for specific projects, it is important that Reserves are held for any unforeseen demands.

- In addition to the Reserves, the Council holds the General Fund Balance of £1.5m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing risks within each Service Risk Register. Individual Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.
- Inflation provision - £50,000 inflation provision is held in the 2017/18 Budgets. This may be used where budget managers can demonstrate that they are unable to accommodate the limited inflationary uplift being incorporated within budgets.

6.6 The Council's Medium Term Financial Strategy includes several projects which should result in savings that will assist the Council to be able to set a balanced budget into the future. The most notable of these projects are the Leisure Options (£500,000 from October 2018) and the Office Re-location (£300,000 from October 2018). If these projects do not make the level of savings projected, or there is any delay in these projects, it may seriously impact upon the Council's finances.

7. Alternative Options Considered

7.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

8. Background

8.1 At its meeting on 18 April 2012 the Executive agreed that the management of the Council's Fit For the Future change programme would be through the delivery of the Service Area Plans. Plans were updated at the September 2015 and 2 June 2016 Executive meetings.

8.2 Options for finalising and balancing the budget will be brought forward in February 2017.

8.3 This report presents the proposed Base Budget for 2017/18. These figures reflect the costs of maintaining the current level of service, any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure) and any other commitments that members have previously agreed to be incorporated within the 2017/18 Budget. The report also considers the current year's budget, and includes details of latest proposed changes to the 2016/17 Budget.

8.4 Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report.

8.5 In February all the following information should be available:

- 2017/18 Base Budget

- 2017/18 Revenue Support Grant Settlement.
- Updated Business Rates Retention projections
- 2017/18 New Homes Bonus

8.6 If the main revenue sources above are below the projections within the medium term financial strategy, detailed consideration will be required as to the means of being able to set a balanced budget. This may include making further savings from services, generating additional income, or using the Council's limited reserves in the short term. Alongside this, it will be necessary to include the full impact of the Leisure Options on 2017/18 budgets.

8.7 The Council will then be in a position to agree the 2017/18 Budget and the District Council element of the Council Tax. In addition, the total Council Tax for the District will be set, including the elements set by the County Council, the Police and Crime Commissioner and the Parish and Town Councils.

8.8 The report is broken down into the following sections and appendices:

- Section 9 - Savings
- Section 10 - Base Budgets
- Section 11 - 2017/18 Base Budgets
- Section 12 - Latest Budgets 2016/17
- Section 13 - Capital Financing and Reserves
- Section 14 - General Grants
- Section 15 - Medium Term Financial Strategy
- Appendix A - Analysis of Budget Movements from 2016/17 to 2017/18
- Appendix B1 - Revenue Budgets Summary
- Appendix B2 - Detailed Revenue Budgets – available on the Executive Meeting page on the Council's website (www.warwickdc.gov.uk)
- Appendix C - Capital and Reserve Financing Variations
- Appendix D - Glossary of Terms

9. Savings

9.1 Much work has already been undertaken to address the forecast budget deficit in future years.

9.2 There has been a significant amount of procurement activity on-going across the Council. In addition to the letting of contracts, the actions within the Procurement Strategy have been progressed, including member and officer training. All this work is helping to ensure good procurement practices are well embedded across the authority.

9.3 The 2017/18 Base Budget assumes savings of £175,000 agreed in September 2015 and as part of the Fit for the Future Programme. Additional savings or additional income in respect of 2017/18, totalling £168,000, was agreed by the June 2016 Executive, with further savings of £804,000 agreed for future years:

- £25,000 "non-contractual" budget savings have been devolved to Service Areas. Most have been identified against Budgets whilst a few are yet to be identified. These are being monitored.

Savings / income areas being progressed (£143,000 as included within Appendix A):

- £58,000 savings from a review of Concurrent Services and parish support;
- £50,000 savings from a review of the One Stop Shop service;
- £20,000 savings from a review of Ranger services;
- £15,000 savings by Development Services Technical Support Team review.

9.4 Progress in achieving these savings is being monitored and progress will be reported to members in future reports.

10. Base Budgets

10.1 The proposed Base Budgets for 2017/18 and the Latest Budgets for 2016/17 are shown below. These figures include all financing charges (which are dealt with in Section 13 later). Section 11 of this report considers the 2017/18 Base Budget, with Section 12 looking at the Latest 2016/17 budget figures.

	Base Budget 2016/17 £000	Latest Budget 2016/17 £000	Base Budget 2017/18 £000
Net Expenditure for District Purposes	12,704	11,797	12,843

10.2 The above figures fluctuate year on year mainly to reflect changes to the use of reserves (often due to project slippage), and changes in external support, notably Revenue Support Grant and retained Business Rates.

11. 2017/18 Base Budget

11.1 In preparing the 2017/18 Base Budget the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2016/17 Original Budget.

- Removal of any one-off and temporary items
- Addition of inflation
- Addition of previously agreed Growth items
- Addition of unavoidable Growth items
- Inclusion of any identified savings

11.2 The table below summarises how the 2017/18 base budget has been calculated. Appendix 'B' gives more details to support this.

	£	£	£
NET EXPENDITURE FOR DISTRICT PURPOSES 2016/17 ORIGINAL			12,703,806
Plus Inflation			93,400
Plus Committed Growth:			
- Staffing	453,100		
- Increases in expenditure	796,400		
- Reduced income	26,000	1,275,500	
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Less Savings:			
- Reduced expenditure	(973,400)		
- Increases in income	(854,100)	(1,827,500)	
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CHANGES IN SERVICE INCOME and EXPENDITURE			(552,000)
Changes in Interest			172,800
Changes in Contributions to Capital			72,000
Changes in non-service specific contributions to reserves			352,994
			<hr/>
NET EXPENDITURE FOR DISTRICT PURPOSES 2017/18 ORIGINAL			12,843,000
			<hr/> <hr/>

11.3 Inflation

No inflation has been applied to most budgets. The only exceptions are in respect of Business Rates, which has been inflated at 1.8% and equates to £21,300, the major contracts at 0.8% (£22,100). In addition, the general inflation contingency budget has been increased by £50,000 to £79,500.

11.4 Staffing

Staffing costs (excluding the effects of Leisure Options) will increase in 2017/18. The main changes:

- Assumed 1% pay award (£144,400);
- Increase in employer's Local Government Pensions Scheme contribution (£103,000 adverse);
- Pensions Auto Enrolment (£63,800);
- Apprenticeship Levy (£39,800).

11.5 Growth / Income Reductions

Only previously committed growth and unavoidable changes have been included in the Base Budget. This totals £822,400 of which £796,400 relates to increased expenditure and £26,000 relates to reduced income. Appendix 'B' lists the main items, the largest being:

- Increase in Electricity costs (+£320,000) – original saving of £207,000 was not achievable;
- Increase in Bed and Breakfast accommodation costs over the housing benefits threshold (+£100,000);
- Housing Market Assessment – one-off (+£60,000);
- HEART project – continuation of an originally time limited service – agreed at 28 September 2016 Executive meeting (+£48,500);

- Increase in payments processing costs / removal of surcharge income (+£35,000).

11.6 Various savings have been allowed for within the Budget. These total £1,827,500 which comprises £973,400 reductions in expenditure and £854,100 increases in income. Appendix 'B' lists the main items, the largest being:

- Removal of one-off / time limited items (-£445,700);
- Increased Fees and Charges income (-408,500);
- Increased Planning Fee Income (-£398,000);
- Agreed Budget savings – see paragraph 9.3 (-£435,000);
- Cleaning Contract re-letting contingency not required (-£80,000)
- Saving on Benefits overpayments (-£50,000).

11.7 Having taken the above into account, there is a forecast reduction of £552,000 in net service expenditure.

11.8 The large increase in non-service specific contributions to reserves (+£0.4m) is mainly due to no contribution from the Business Rates Retention Volatility Reserve (+£1.7m) plus no allocations from New Homes Bonus to reserves at this time (-£1.2m).

11.9 In addition to the above there are also various other, general, financing adjustments required to arrive at the demand for Council Tax. Taking all these items into account produces a surplus of £97,200. It should be noted that these Base Budget figures do not allow for the implications of the investment in the leisure centres for 2017/18 recently considered by Members. In 2017/18 there will be an additional revenue cost relating to the proposals which should be able to be funded from the Leisure Options Reserve (see paragraph 12.7) and the anticipated concession from the new operator (which is currently subject to the tender analysis). This will present an additional cost to be funded as part of agreeing the 2017/18 final Budget and Council Tax level.

11.10 However, as outlined in section 9, the final Revenue Support Grant and other unforeseen events mean the final position will not be known until early 2017.

11.11 Appendix 'B' is broken down into two parts – Appendix 'B1' and Appendix 'B2'. Both appendices provide details of service expenditure and income in portfolio order. Appendix 'B1' is a summarised version of Appendix 'B2'.

The analysis in Appendix 'B2' is divided into two sections – expenditure and income under the direct control of the budget manager (e.g. salaries, fees and charges income, etc.) and those items for which they have little or no control over (support service allocations and capital financing charges).

Explanations are provided where significant variations have been identified.

12. Latest Budget 2016/17

12.1 Under the new Budget Review process, amendments to budgets are presented to members, for approval, on a regular basis rather than waiting until this report. Consequently, many changes have already been approved. This report continues that process and provides details of the latest budgets for the current year. Appendices 'B1' and 'B2' provide detailed analysis of net expenditure by service in Portfolio groupings.

12.2 The Latest Budgets total £11,797,000 which is a reduction of £906,806 compared with the originally approved budget for 2016/17 of £12,703,806. The major items for this are:

- Contribution from Business Rates Volatility Reserve (-£737,900 favourable) to counter the reduction in retained business rates lower in the table;
- Reduction in Service expenditure (-£285,100 adverse);
- Contribution from General Fund from 2015/16 surplus (-£231,700);
- Contribution from the Gym Equipment Reserve which has been closed (-£122,500 favourable)
- Additional income transferred to Reserves (+£367,900 adverse);
- Changes in interest and contributions to capital (+£127,300 adverse).

12.3 The main reasons responsible for the decrease in service income and expenditure are included within Appendix 'B', which can be summarised as follows:

	£	£	£
NET EXPENDITURE FOR DISTRICT PURPOSES 2016/17 ORIGINAL			12,703,806
Plus Committed Growth:			
- Increases in expenditure	703,000		
- Reduced income	76,600	779,600	
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Less Savings:			
- Staffing	(19,700)		
- Reduced expenditure	(193,800)		
- Increases in income	(851,200)	(1,064,700)	
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CHANGES IN SERVICE INCOME and EXPENDITURE			(285,100)
Changes in Interest			47,400
Changes in Contributions to Capital			79,900
Changes in non-service specific contributions to reserves			(749,006)
			<hr/>
NET EXPENDITURE FOR DISTRICT PURPOSES 2016/17 LATEST			11,797,000
			<hr/> <hr/>

12.4 The first part of the table above shows that the total net expenditure on services has reduced by £285,100.

12.5 The comments made in paragraph 11.12 concerning the content of Appendix 'B' are equally applicable to the information provided in respect of the Latest Budgets for 2016/17.

12.6 The Quarter 2 Budget Review to the Executive on 2 November 2016 identified, and reported on, a budget surplus totalling £246,400. The Budgets included in this report have identified a surplus of £169,300 which is an adverse change of £77,100 to the previously reported surplus figure referred to above.

12.6.1 There is an increase of £80,000 in Revenue Contributions to Capital Outlay for Bin Replacements. The initial Contribution to Capital was under-budgeted when the 2016/17 Budgets were set.

12.6.2 Investment Interest is down, but not as low as forecast during Budget Review, a favourable move of some £84,000.

12.6.3 Salary variances reported previously will not be as favourable as expected. The budget savings for staffing in Contract Services are needed to pay a contractor £77,100.

12.6.4 There will be a cost of a by- election estimated at £11,900.

12.6.5 There have been numerous other smaller changes to budgets totalling £8,000 favourable.

12.6.6 These changes can be summarised as below:

	£'000
Surplus per Monitoring Report to Executive 2 November	(246)
Subsequent changes:	
Revenue Contribution for Bin replacements	80
Improvement in interest forecast	(84)
Contract Services salary underspend needed	77
By Election	12
Minor changes	(8)
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Latest surplus forecast	(169)
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12.7 The Quarter 2 Budget Review Report indicated that there could be some loss of income at the Leisure Centres during the Refurbishments. However at that point, it was not possible to quantify. Dates of the works and whether these would be complete or partial closures were unknown. The revised forecasts now built into Budgets assume income will be reduced due to part of the St Nicholas Park Centre closing in the latter part of 2016/17 (£92,000). Newbold Comyn will be fully closed for some 3 to 4 months this year resulting in a loss of income of £392,000. This loss in net income is being funded from the Leisure Options Reserve which had a balance of £625,000, so being reduced by £484,000 to £141,000. The use of the remainder of this reserve will be considered in the February report.

12.8 The 2016/17 budget has been reviewed in order to set the 2017/18 base budget. This will be reviewed again in February.

13. Capital Financing and Reserves

13.1 In order to arrive at the position for the Council's overall net expenditure it is necessary to take account of the effects of the Council's capital financing arrangements and any transfers to and from reserves. These are summarised below:

Line Ref	BASE BUDGET 2016/17 £'000	LATEST BUDGET 2016/17 £'000	BASE BUDGET 2016/18 £'000
1 Net Cost Of General Fund Service Expenditure	18,165	21,017	16,768
Capital Financing and Reserves			
2 Depreciation & Intangible Assets in Service Estimates	(3,630)	(4,634)	(3,375)
3 Loan Repayments, Revenue Contribs & Interest Paid	4	4	3
4 Revenue Contributions to Capital	466	546	538
5 Contributions to / (from) Reserves	(846)	(3,942)	(294)
6 External Investment Interest	(368)	(321)	(194)
7 IAS19 Pension Adjustments	(1,012)	(565)	(603)
8 Contributions to / (from) General Fund	(75)	(308)	-
9 TOTAL CAPITAL FINANCING and RESERVES	(5,461)	(9,220)	(3,925)
10 TOTAL ESTIMATED NET EXPENDITURE	12,704	11,797	12,843
Change from Base Estimate		(907)	139

13.2 Detailed explanations of the changes to items 2 to 8 are within Appendix 'C'.

13.3 Most of the changes to the Capital Financing and Reserves figures reflect changes in specific items within the cost of General Fund service expenditure, whereby many increases in service expenditure are met by a contribution from a specific reserve which would be included here.

13.4 Depreciation and Intangible Assets in Service Budgets (line ref 2 above).

Similarly, the notional Capital Financing Charges reflect the change in capital charges within the cost of individual services. These changes occur as a result of variations such as slippage between years and new schemes within the Council's capital programmes.

13.5 Loan Repayments, Revenue Contributions and Interest Paid (line ref 3 above).

This is made up of the interest element of finance leases which the Council has entered into as well as interest on the bank overdraft. Other than the finance lease interest relating to the Dog Wardens van and potential bank overdraft interest, there is currently no external interest payable by the General Fund in 2016/17 or 2017/18. The revenue implications of the proposed investment in the leisure centres have yet to be included in these figures.

13.6 Revenue Contributions to Capital (line ref 4 above).

The increases in 2016/17 and 2017/18 are a consequence of an increase in the revenue contributions funding the Refuse and Recycling Containers capital programme budget.

13.7 Contributions to / (from) Reserves (line ref 5 above).

The 2017/18 original budget shows an increase in contributions to reserves of £552,000 when compared to the 2016/17 original budget. The 2016/17 latest

budget shows an increase in contributions from reserves of £3,096,000. The changes can be categorised as follows:

	Base Budget 2016/17 £000	Latest Budget 2016/17 £000	Base Budget 2017/18 £000
<u>Contributions to / (from) reserves:</u>			
Contribution to / (from) Business Rates Retention Volability Reserve	-1,719	-2,457	0
Use of New Homes Bonus	1,329	1,329	0
Other Reserves	-456	-2,814	-294
Contributions to / (from) reserves	-846	-3,942	-294

Change:

Contribution to / (from) Business Rates Retention Volability Reserve	-738	1,719
Use of New Homes Bonus	0	-1,329
Other Reserves	-2,358	162
Contributions to / (from) reserves	-3,096	552

13.8 External Investment Interest (line ref 6 above).

When compared to the 2016/17 original budget, net external investment receipts are expected to decrease by £47,000 in 2016/17 and by £174,000 in 2017/18. The main reason for this is the economic impact of the BREXIT vote and the subsequent reduction in the Bank Rate and future interest rate expectations which are expected to remain low for a number of years. This has been partly counterbalanced by increased investment balances as a result of variations in the 2015/16 and 2016/17 revenue and capital programmes. The changes can be summarised:

	Original 2016/17 £'000	Latest 2016/17 £'000	Original 2017/18 £'000
Interest	-538	-480	-290
Deferred Capital receipt	-26	-26	-26
HRA share	196	185	122
Total GF Interest	-368	-321	-194
<u>Change:</u>			
Effect of Investment Interest rate changes		159	312
Additional Interest earned on higher balances		-101	-64
Net Change in Interest Receivable		58	248
HRA share		-11	-74
Reduction in General Fund Interest		47	174

The Housing Revenue Account balances form part of the Council's investment portfolio and as a result of the factors described above the investment interest to be credited to the Housing Revenue Account is expected to reduce in 2016/17 and 2017/18 by £11,000 and £74,000 respectively.

In line with the 2016/17 Treasury Management and Investment Strategies, work is currently under way to appoint Corporate Equity Fund managers which should provide an enhanced investment return on a portion of the investment portfolio which will go some way to mitigating the lost investment interest alluded to above. It is not possible at this stage to quantify what this enhanced return might be and therefore no account of it has been taken in preparing the 2016/17 and 2017/18 investment interest estimates.

13.9 IAS 19 Adjustments (line ref 7 above).

IAS 19 requires an authority to recognise the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out. The figures included in the budgets are based on the latest figures from the Pension Fund actuary.

13.10 Contributions to / (from) General Fund (line ref 8 above).

In line with the decisions made at the February 2015 Executive meeting as part of the 2016/17 Council Tax Setting, £75,400 was contributed from the General Fund in 2016/17.

14. General Grants

14.1 In order to complete the picture the general grants position also needs to be considered.

14.2 The Revenue Support Grant figures show a reduction of £0.793m from 2016/17 to 2017/18 based upon the 4 year settlement confirmed in January of this year. Should this change, the revised figure will be reported in the February Budget Setting Report.

14.3 Business rates retention figures show a reduction of £737,000 in 2016/17 due to a potential levy on increased business rates income (offset by a contribution from the Business Rates Retention Volatility Reserve) and an increase of £2.95m in 2017/18. Business Rates income for 2016/17 was deflated by this Authority's share (3.6m) of the deficit on the Collection Fund. This deficit had arisen on closure of the 2014/15 accounts.

14.4 At this stage, no New Homes Bonus has been included in respect of 2017/18.

14.5 The Council Tax element of the Collection Fund is expected to be in balance for the current year. This will be calculated in January 2017, with the Major Preceptors being notified of their share, and be included within the February 2017 Budget report with any balance to be charged to 2017/18.

14.6 The net result of all these movements is shown below:

	BASE BUDGET 2016/17 £'000	LATEST BUDGET 2016/17 £'000	BASE BUDGET 2017/18 £'000
TOTAL ESTIMATED NET EXPENDITURE	12,704	11,797	12,843
Less: Revenue Support Grant	(1,587)	(1,587)	(794)
Less: Business Rates Income	(876)	(139)	(3,829)
Less: General Grants:			
- New Homes Bonus	(2,258)	(2,258)	-
- New Homes Bonus Returned Funding	(10)	(10)	(10)
- Transition Grant	(40)	(39)	(39)
Collection Fund (Surplus) / Deficit	(55)	(55)	-
Council Tax	(7,878)	(7,878)	(8,268)
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(Surplus) / Deficit	-	(169)	(97)
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This shows that there is a forecast surplus of £169,300 in 2016/17 and £97,200 in 2017/18. These figures are before the surpluses are appropriated to reserves.

15. Medium Term Financial Strategy

- 15.1 The Strategy has been updated since it was presented to Members in June of this year as part of the Fit for the Future Report. In June (section 5.5), it was projected that this Council would need to find and deliver savings of some £696,000 by 2020/21.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Cumulative Deficit-Savings Required(+)/Surplus(-) future years	148	295	75	52	696
Change in previous year Savings(+) / Surplus(-)	148	147	-220	-23	644

- 15.2 The above table was on the basis that future council tax increases to 2019/20 would be £5, and the additional costs of the funding for the new Covent Garden Multi-Storey Car Park would be funded from increased car parking charges.
- 15.3 The Executive received a report in June of this year on new projects introduced as part of the Fit For the Future Change Programme. Additional recurrent savings approaching £1million have been incorporated into 2017/18 and future years including Leisure Options and office move.
- 15.4 £100,000 of the increased Planning income built into 2016/17 and 2017/18 budgets is forecast to be recurrent. Additional income has been identified as part of the Fees and Charges process reported to Members in September of this year. This is £107,000 more than previously assumed in the Strategy.
- 15.5 Electricity Costs are expected to increase by £335,000 against budget. Increase costs were discussed in the Quarter 2 Budget Review Report presented to Members earlier this month.

- 15.6 Recurrent increased Bed and Breakfast costs (£100,000) presents a net cost to the Council in terms of Housing Benefits which are not funded by Government Subsidy. To partly mitigate this, there are other Benefit Subsidy savings of £50,000.
- 15.7 The saving on the Cleaning Contract Contingency, £80,000, is discussed in section 11 above.
- 15.8 Investment Income by 2021/22 is forecast to have reduced by £345,000. Increased balances have somewhat offset the delays in interest rate rises.
- 15.9 Increases in Pensions liability of £253,000 over the 5 year period. The results of the 2016 Triennial Pension Fund Revaluation should be known soon to inform the 2017/18 Budget, when these figures will be reviewed.
- 15.10 Retained Business Rates have been updated to reflect the Authority's Business Rate Returns and their impact on the General Fund. Contributions from the Business Rates Retention Volatility Reserve are being made in 2016/17, with no further contributions for future years based on current estimates. Business Rates Retention is forecast to be £210,000 per annum greater in 2021/2022 than previously forecast in the Medium Term Financial Strategy. However, long term projections are likely to alter greatly as 100% Business Rate Retention is introduced.
- 15.11 The 2017/18 Tax Base has been calculated and has been incorporated within the 2017/18 Base Budget. The new Tax Base is 310 Band D Equivalentents higher than that included in the Financial Strategy. Based upon a Council Tax increase of £5 on a Band D, this brings £48,000 increased revenue to the Council.
- 15.12 The rigorous Budgeting exercise in sections 11 and 12 above have identified various smaller changes, such as increased insurance costs £30,000 and increased Recycling Credits, £20,000. Many of these changes are recurrent and impact upon future years.
- 15.13 None of the changes arising from the Leisure Outsourcing in 2017/18 have been reflected in the Strategy. The forecast savings of £500,000 from October 2018 remain in the Strategy as previously reported.
- 15.14 Taking all of these changes into account, plus minor ones less than £50,000, the Strategy now forecasts a Deficit of £132,000 by 2021/22. The profile of the surpluses and deficits over this period is shown below.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Deficit-Savings Required(+)/Surplus(-) future years	-97	18	-415	-550	132
Change on previous year	-97	115	-433	-135	682