	REPORT TO CABINET TO BE HELD ON 14 NOVEMBER 2017	
	Key Decision	**NO**
	Forward Plan Ref No	
Corporate Priority: **Meets all Corporate Priorities**	**Cabinet Portfolio Holder**	**Cllr Helen Mallory**

REPORT OF: DIRECTOR (NE) – 17/254

WARDS AFFECTED: ALL

SUBJECT: BUDGET STRATEGY 2018 TO 2021 AND BUSINESS RATES POOLING

RECOMMENDATION (S):

That Cabinet:

(i) Note the Council's anticipated funding gap for the financial years 2018/19 to 2020/21 and the proposed strategy for addressing the funding gap;

(ii) Note that the Council has submitted a proposal to the Department for Communities and Local Government (DCLG) to become part of a 100% Business Rates Pool Pilot in 2018/19 alongside North Yorkshire County Council, East Riding of Yorkshire Council, Hambleton District Council, Craven District Council, Selby District Council, Richmondshire District Council and Ryedale District Council;

(iii) Delegate the authority for entering into the 100% Business Rates Pilot to the Strategic Director (NE) in conjunction with the Portfolio Holder for Finance, Procurement and Legal, should the pilot application be successful;

REASON FOR RECOMMENDATION(S):

To approve the strategy for addressing the Council's funding gap and put plans in place to address the budget shortfall in a planned and structured way; minimising unplanned cuts in service delivery.

To maximise the Council's income from the Business Rates Retention scheme.

HIGHLIGHTED RISKS:

The actual funding gap over the period exceeds current estimate, resulting in the need to find further savings.

Savings are not delivered in time, resulting in unplanned draws from reserves or cuts to front line services.

1. INTRODUCTION

1.1 In December 2015 the Government announced the provisional finance settlement for 2016/17, alongside an indicative multi-year settlement offer for the years up to and including 2020. The government indicated that the settlement figures would be fixed for those authorities that chose to accept them and published an efficiency plan.

1.2 This Council made the decision to accept the offer, and the Efficiency Plan (2017 to 2020) was approved by Cabinet in September 2016 (report reference 16/194).

1.3 In recent years the level of grant funding received from Central Government has reduced significantly. In 2010/11 the Council received £12.6m in core government funding and current projections estimate that this figure will reduce to £4.2m in 2019/20; representing a £8.4m (66%) reduction in annual funding. In addition the Council must absorb the cost of spending pressures within its budget. Over the financial years 2010/11 to 2017/18 ongoing savings of circa £17m have had to be made from the Council's annual revenue budget.

1.4 As staffing resources reduce and savings become harder to identify it is becoming apparent that the length of time needed to deliver savings is increasing. The Council is also keen to pursue commercial opportunities, which can generate financial returns to support the revenue budget, rather than relying purely on cuts in service or expenditure. It is acknowledged that this approach may require a longer planning period and lead in time to deliver the required financial returns. With that in mind it is proposed that the Council now moves towards a 3-year budget setting programme, covering the financial years from 2018/19 to 2020/21.

1.5 In addition to the funding streams covered by the multi-year settlement offer the Council retains a share of business rates income. In the 2015 Autumn Statement the Government announced that by 2020 local authorities will retain 100% business rates income under the Business Rates Retention scheme, and alongside the 2016/17 Local Government Finance Settlement announced the Fair Funding Review, which will determine the baseline levels of business rates income retained by each local authority.

1.6 Under the current rates retention scheme local authorities retain a 50% share of business rates. The remainder is paid back to Central Government and is redistributed to local authorities in the form of grants. Business rates growth is distributed in the same proportions. In September 2017 the government published an invitation document offering all local authorities in England the opportunity to apply to pilot the 100% Business Rates Retention scheme in 2018/19. The pilot scheme will allow authorities to retain 100% of any above-baseline growth rather than the current 50% share.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

2.1 The proposals set out in this report impact on all the Council's Corporate Aims and Priorities.

3. BACKGROUND AND ISSUES

3.1 FUNDING GAP 2018 – 2021

3.1.1 The Financial Strategy agreed by Council in February 2017 delivered a balanced budget position for 2017-18, with a planned draw from reserves of £0.5m. When the 2017 Financial Strategy was drafted the Medium Term Financial Plan projected a revenue funding gap of £4.4m over the period from 2018/19 to 2020/21 after making allowance for anticipated central government funding reductions, unavoidable budget growth and contingencies.

3.1.2 Those projections have been updated and the estimates now show a **funding gap of approximately £4.7m** over the equivalent period; with the increase being primarily attributable to changes in the anticipated funding levels following the introduction of the 100% Business Rates Retention Scheme and Fair Funding Review in 2020/21, and projected increases in the level of pay awards following pressure for the government to move away from the current 1% cap on pay increases.

3.1.3 The Council's core government funding streams comprise revenue support grant, a share of retained business rates income, new homes bonus and rural service and transitional grant. Table 1 below sets out the projected levels of these core funding sources up to 2020/21and shows that annual net funding is expected to reduce by £2.169m over the period.

Table 1 – Anticipated government funding reductions

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	TOTAL £'000
Revenue Support Grant	1,231	672	49	-	
Rural Services and Transitional Grant	18	13	16		
Funding sources covered by the Multi-Year Funding Offer	1,249	685	65	-	

Retained Business Rates – baseline	4,000	4,120	4,243	4,251	
Retained Business Rates - growth	770	770	770	300	
New Homes Bonus	1,112	698	666	411	
TOTAL GOVERNMENT FUNDING	**7,131**	**6,273**	**5,744**	**4,962**	
Net Government Funding Reduction		858	529	782	2,169

3.1.4 In addition to funding reductions the Council must also take into account unavoidable costs that will arise over the period. It is expected that these cost pressures will be partially offset by increases in Council Tax levels arising from increases in the Council Tax precept and growth in housing numbers. Current projections anticipate that the Borough Council's precept for a Band D property will increase by £5 per annum and the number of Band D equivalent properties in the Borough will increase by 1% per annum. If these increases do not materialise, or are not approved, the net spending pressures will increase accordingly.

3.1.5 The anticipated levels of net funding pressures and the Council's projected funding gaps over the period to 2020/21 are set out in Tables 2 and 3 below:

Table 2 – Net Spending Pressures

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**TOTAL £'000**
Council Tax increases	(274)	(278)	(283)	
Spending pressures	969	1,097	821	
Net Spending Pressures	**695**	**819**	**538**	**2,052**

Table 3 – Projected Funding Gap

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**TOTAL £'000**
Government funding reductions	858	529	782	
Net Spending pressures	695	819	538	
Add back one-off contribution from reserves from 17/18	500			
Funding Gap	**2,053**	**1,348**	**1,320**	**4,721**

3.2 CORE GOVERNMENT GRANT FUNDING PROJECTIONS

Multi-Year Settlement Offer

3.2.1 The multi-year settlement offer made by the Government in 2016/17 fixes the revenue support, rural services and transitional grant elements of the Council's core funding streams, which are all being phased out in the lead up to 100% Business Rates Retention. It does not apply to retained business rates income or new homes bonus funding. For this Council the sources of funding covered by the multi-year settlement offer will reduce by £2.087million over the 4 year period to 2019/20.

3.2.2 The projections for the funding sources covered by the multi-year offer are based on the indicative figures provided in the 2016/17 provisional settlement. As the Council accepted the Government's funding offer it is considered unlikely that these figures will change.

New Homes Bonus

3.2.3 In February 2011 the government published the proposals for New Homes Bonus (NHB); a scheme that was designed to incentivise local authorities to increase housing supply by rewarding them with a 6-year grant for each new house created within the area.

3.2.4 In its Spending Review and Autumn Statement 2015 the Government announced that it aimed to reduce NHB funding nationally by £800m over the Spending Review period and redirect those resources to adult social care. A technical consultation paper on the proposed changes to the distribution method was issued alongside the provisional settlement in December 2015, and the final proposals were announced alongside the 2016 provisional settlement.

3.2.5 The revised proposals determined that the period of grant allocations would be reduced from six to five years in 2017/18 then to four years in 2018/19, and that future payments would only be made for housing delivery above an annually determined national baseline figure. This baseline was set at 0.4% in 2017/18.

3.2.6 The NHB figures built into the Council's funding projections take into account the reduction of funding allocations from five to four years and are based on the tax base figures as at August 2017. The figures assume that the baseline figure applied in the calculations will remain at 0.4%, although this is currently out to consultation and will not be confirmed until later in the year when the provisional settlement figures are announced.

Retained Business Rates

3.2.7 The current localised business rates scheme came into effect on 1 April 2013 and at that time represented a fundamental change in local government funding policy. Prior to its introduction all business rates income was paid over to central government. The income was pooled nationally and was then redistributed back to councils in the form of revenue support grant, based on the government's assessment of each authority's deemed funding need.

3.2.8 Under the current scheme business rates income is split equally into a local and central share. The central share is paid to central government and continues to be redistributed to councils in the form of revenue support and other grants, and the local share is retained by local authorities. A tariff and top-up mechanism exists within the system to balance an authority's target local share of annually retained business rates income with the amount of funding the government deems it needs to fund its services (its funding baseline). This ensures that areas do not lose out just because their local business rates are low compared to their assessed needs. Where an authority's target retained share of business rates exceeds their deemed funding need a tariff is payable back to Central Government and where an authority's retained share is less than its deemed funding need a top-up payment is received. This council is a tariff paying authority.

3.2.9 Within the current system local authorities that successfully increase business rates income and exceed their target funding baseline keep up to 50% of the growth, with tariff paying authorities becoming liable to pay a levy of up to 50% on that growth. The money raised from this levy is used to fund a safety net system, which protects councils that see significant reductions in their business rates income and do not achieve their funding baseline in any one year.

3.2.10 Table 1 shows the funding projections from the Retained Business Rates scheme. For the years up to 2019/20 the projections are based on the current 50% Business Rates Retention scheme and the Government's current assessment of the Council's deemed funding need and business rate baselines, which were determined when the localised scheme was introduced; plus an element of business rates growth that was taken into account in the Council's revenue budget to reduce cuts in service.

3.2.11 In 2020/21 it is expected that the 100% Business Rates Retention Scheme will be introduced. At this point business rate and funding baseline figures will be reset therefore it is anticipated that the Council's share of business rates growth will reduce.

Fair Funding Review

3.2.12 As part of the 2016/17 Settlement the Government announced a 'Fair Funding Review' of council's relative needs and resources. This review will assess how much funding each authority is deemed to need; taking into account factors such as population, demographics, deprivation, sparsity, rurality and ability to generate Council Tax revenue.

3.2.13 The last funding needs assessment was carried out in 2013/14, however was largely focussed on updating the data used in the assessment rather than revising the areas included within the calculation. The needs formula has not been thoroughly reviewed for over a decade and is now considered to be outdated.

3.2.14 The outcome of the Fair Funding Review will establish the Council's baseline level of retained business rates income under the 100% Rates Retention Scheme therefore is an extremely important determining factor in the levels of funding post 2020. A Fair Funding Review: Call for evidence paper was published in 2016 and asked for feedback and suggestions for areas to be considered within the revised needs assessment.

3.2.15 The Government has recognised in recent years that additional costs are associated with service delivery in rural areas and has introduced rural services grant funding to compensate authorities for these additional costs. These additional costs will likely be factored into the updated needs assessment. Worryingly, the sparsity weightings used to calculate historic rural grant allocations have meant that, despite the Borough containing large expanses of rural areas, the Council's share of the rural services grant funding is negligible (£16k in 2017/18). The Council therefore made representations to try to address this shortcoming as part of the review of the needs assessment.

3.2.16 Being a coastal resort the Council is also affected by additional cost pressures arising from tourism visitors (e.g. higher street cleansing costs) and coast protection schemes. This was also factored into the Council's response to the Call for Evidence paper in the hope that these areas will be considered in the revised assessment.

3.2.17 The Government has recently confirmed that the Fair Funding Review will not be implemented until 2020/21. The projections in Table 1 show that by that time the Council's baseline funding need will be in the region of £4.2m. The projections built into the Council's Medium Term Financial Plan assume that the assessed baseline need will not change as a result of the Fair Funding Review, however there is a significant risk that this figure could vary substantially. A consultation paper on the Review is expected imminently.

3.3 EFFICIENCY PLAN

3.3.1 In order to accept the Government's multi-year settlement offer the Council had to approve an Efficiency Plan, which set out the high level plans to address future year budget deficits. The core themes within the Council's Efficiency Plan were as follows:

- Transformational efficiencies and commercialisation;
- Investment to support economic growth
- Strategic review of the Council's role in the delivery of services and use of assets; and
- Planned use of reserves and Investment Fund

3.3.2 The budget strategy for the period 2018-21 builds on the themes set out within the Efficiency Plan.

3.4 BUSINESS RATES POOLING

NORTH YORKSHIRE BUSINESS RATES POOL

3.4.1 Since 2014/15 the Council has been a member of the North Yorkshire Business Rates Pool, which comprises this Council as well as North Yorkshire County Council and Ryedale, Craven, Hambleton and Richmondshire District Councils. Scarborough is the lead authority for the pool.

3.4.2 Under the pooling regime authorities within a pool are treated as a single authority for the purposes of the localised Business Rates Retention scheme.

3.4.3 Individually each District Council would be required to pay a 50% levy on their share of growth in business rates income. The major advantage of creating a pool under the current Rates Retention Scheme is that the overall pool levy is reduced to nil when each of the authorities are treated collectively as a single authority. The levies saved through the North Yorkshire Pooling arrangements are distributed back to pool members through a pool dividend.

3.4.4 The Council's revenue budget does not recognise the potential receipt of any pool dividends due to the uncertainties relating to business rates revaluation and the settlement of business rate appeals across the pool. The Financial Strategy details that any dividends received will be committed for investment within the capital programme.

INVITATION TO APPLY FOR A PILOT OF THE 100% RATES RETENTION SCHEME

3.4.5 In September 2017 the government published an invitation document offering all local authorities in England the opportunity to apply to pilot the 100% Business Rates Retention scheme, which is expected to come into effect in 2020/21. The pilot will take place in the 2018/19 year and will expand on 5 existing pilots, which are already in place and will continue in 2018/19.

3.4.6 The pilots will be used to help the government design the national system of business rates retention and test more technical aspects of the system, such as tier splits in two-tier areas; which are not currently covered by the existing pilots. They will also be used to help the government evaluate how collaboration between local authorities works in practice. The DCLG is looking for a wide spread of pilot types, with a particular focus on applications from rural, two-tier areas.

3.4.7 Under the pilots authorities will be expected forego Revenue Support Grant and Rural Services Delivery Grant, however these income streams will be adjusted for within business rate baselines therefore authorities will be no worse off. A tariff and top-up mechanism will continue to exist to balance an authority or pool's target local share of retained business rates income with the amount of funding the government deems it needs to fund its services.

3.4.8 Under the current Rates Retention scheme 50% of business rates income is paid to Central Government; meaning that any above-baseline growth is shared equally between Central and Local Government. The 100% pilot scheme will allow local authorities to retain this growth in its entirety. It is highly unlikely that all applications for pilot status will be successful because of affordability constraints. There is likely to be a competitive process, with applications being measured against the following criteria:

Applications should cover a functional economic area. The invitation talks about covering a "functional economic geography". This might be a current pool area or county, but could also extend further than this (for instance, to include counties and contiguous unitaries, or potentially even two or more counties).

Preference for applications from two-tier areas. Pilots will not be limited to two-tier areas, although the split between counties and districts is something the DCLG wants to explore as the existing pilots only include single-tier authorities.

Proposals would promote financial sustainability. The DCLG wants pilots to show how they can be more self-reliant at a pool level and require less support from the national safety net.

Evidence of how pooled income from growth will be used across the pilot area. Authorities forming a pool must put forward proposals on how additional business rate growth will be split across authorities and how the growth will be used to promote the financial stability and sustainability of the pooled area. The government expect to see some of the retained growth being invested to encourage further growth across the area.

3.4.9 At a meeting on 29 September the North Yorkshire Chief Finance Officers decided that the opportunity and benefits of applying to be a pilot should be investigated with a view that an application should be made if it was beneficial.

3.4.10 The services of Pixel Financial Management were commissioned to provide advice and to undertake the financial modelling required. Pixel already provides advice to the North Yorkshire Chief Finance Officers Group, and is well placed to understand the complexities that we have within the North Yorkshire area.

3.4.11 Originally it was intended that the submission would cover the existing members of the North Yorkshire Business Rates Pool plus Selby, with the potential for East Riding Council to become involved if it was financially beneficial for all parties. Harrogate and York are part of the Leeds City region pool and wish to continue with that arrangement. The inclusion of East Riding was based on the strategic fit across the LEP areas.

3.4.12 Given the issues with the rateable value of power stations in Selby it would have been financially advantageous to exclude them from the application, however Pixel advised that this would make it highly unlikely that a North Yorkshire pilot proposal would be accepted. They also noted that the inclusion of Harrogate within a Leeds City Region Pool may be of interest to DCLG; in that it would allow them to pilot how two-tier splits could work across multiple pools.

3.4.13 The financial appraisal calculations undertaken by Pixel were based on the 2017/18 Non Domestic Rates Returns (NNDR1) that each billing authority completed in January 2017. The modelling showed that the financial business case for a North Yorkshire Pool did not stack up due to the issues at Selby. There was however a financial benefit of £10m for the region if East Riding Council was included.

3.4.14 The existing pilot arrangements include a ‘no detriment’ clause which means that participating authorities can be no worse off as a result of the pilots. It was Government’s original intention that the new pilots would not have the benefit of this clause, however last minute announcements were made to say that this would no longer be the case. The Council can therefore be reassured that it can financially be no worse off as a result of participating in a 100% pilot scheme. This is particularly relevant given the inclusion of the high risk power stations within the proposed pool’s overall rateable value baselines.

3.4.15 Given the above details and the financial benefits to both the Borough and the region a pilot application was submitted to the DCLG in late October. The application stated that 50% of any financial benefit would be transferred to a strategic investment pot to take forward initiatives to improve broadband in rural areas and increase housing delivery across the Pool area. The remainder would be distributed to authorities in line with their business rates growth. East Riding are the main beneficiaries from this distribution; with Scarborough projected to receive in the region of £240k. Scarborough would continue to be the lead authority for the pool.

3.4.16 Decisions about successful pilots will be announced in December. If the application is unsuccessful the existing North Yorkshire Pool will continue in its current form. It is proposed that the authority to enter into a pilot pooling arrangement be delegated to Strategic Director (NE), in consultation with the Portfolio Holder for Finance, Procurement and Legal.

4. CONSULTATION

4.1 The details contained within this report will not specifically be consulted upon however consultations will take place for any budget savings proposals identified as part of the budget setting process.

5. ASSESSMENT

5.1 BUDGET STRATEGY 2018 TO 2021

5.1.1 Table 3 in paragraph 3.1.5 sets out that the Council is facing a projected funding gap of £4.721m over the period to 2021(£2.053m in 2018/19, £1.348m in 2019/20 and £1.320m in 2020/21).

5.1.2 The Council’s policy has always been to be as efficient as possible and protect front line services and since 2010 the Council has delivered savings of £17m from its annual revenue budget. Over that same period performance in many areas has increased.

5.1.3 As staffing resources reduce and savings become harder to identify it is becoming apparent that the length of time needed to deliver savings is increasing. With that in mind it is proposed that the Council now moves towards a 3-year budget setting programme, covering the financial years from 2018/19 to 2020/21.

5.1.4 The Budget Strategy for 2018 – 2021 will continue to build on the themes of the existing Efficiency Plan, which are as follows:

- Transformational efficiencies and commercialisation;
- Investment to support economic growth;
- Strategic review of the Council's role in the delivery of services and use of assets; and
- Planned use of reserves and Investment Fund

Each of these areas are dealt with in turn in the following sections.

5.2 **TRANSFORMATIONAL EFFICIENCIES AND COMMERCIALISATION**

5.2.1 Several years ago it was acknowledged that the historic 'salami slicing' approach to budgeting, which applied the same % savings targets across all service areas, was not a sustainable long term strategy for the Council. Although this approach ceased it was not replaced with an alternative, consistent strategy for the identification of savings therefore what resulted was an annual, piecemeal approach to budgeting.

5.2.2 To alleviate this issue the Council established a Transformation Working Group, which aimed to challenge existing working practices and put new processes and systems in place to create future efficiencies. It was always intended that the transformation programme would form the cornerstone of the Council's budget savings agenda.

5.2.3 The Transformation Working Group is led by the Council's Chief Executive and, alongside a project lead officer, includes Services Unit Manager representatives from finance, audit, human resources, customer services, commercialisation and IT. A Transformation Board consisting of officers and members oversees the work of the group.

5.4.4 A number of business analysts have been seconded from service areas within the Council to assist the Transformation Working Group and undertake service reviews.

5.4.5 The overarching themes of the transformation programme are as follows:

- **Digitalisation** (to reduce the costs and administration associated with paper storage);
- **Customer self-service** (by offering easy to use, 24 hour access to online information and request forms for those customers that wish to use them);
- **End to end paperless solutions** (ensuring that online customer requests seamlessly integrate with back office systems to avoid the re-keying of information);
- **Single Truth databases** (to stop duplicate, contradictory information being maintained across the Council);
- **Improved Customer Service** (by keeping customers informed when they request information or services from the Council and make more services available online);

- **Commercialisation and Joint Working** (to determine whether service areas could increase existing income sources or sell their services to external customers)

5.4.6 As the internal transformation review approach was a new concept to all those involved it was acknowledged that it would take some time for the programme to develop, and that the ways in which reviews were delivered would evolve. The outcomes from early reviews have been critically assessed and the Transformation Team have now introduced a standardised approach which builds on best practice and will be adopted for future reviews.

5.4.7 The new standardised review approach incorporates the following stages:

Pre Review: The pre-review stage is largely consultative and involves affected staff being notified of the imminent commencement of the review.

Scoping and Objective Setting: Business Analysts gathers relevant data from the service area and the transformation team use that information to set out the proposed scope of a review. This initial scoping exercise is expected to be completed in 4-6 weeks and should identify the transformational benefits that could potentially be delivered if a full review is progressed. The proposed review scope is approved by DT and at that point a decision may be made not to pursue the review any further. The introduction of this stage means that the project's limited resources are not tied up with reviews that will deliver minimal benefits.

Review: The review stage will involve more detailed analysis of business processes within a service area and more extensive data gathering. The approved review scope will give focused direction for the review work and the review will culminate in the production of a fully detailed report on the findings, recommendations and potential outcomes.

Implementation: A business case will be pulled together to take forward the actions identified from the review. If the business case is approved an implementation project team will be established to take the review recommendations forward.

5.4.8 The new review format delivers the benefit of giving Business Analysts clear timescales to complete work and a clear focus and direction for reviews. In turn the introduction of defined timescales has allowed a 3-year Transformation Review Programme to be established; which links with the 2018 – 2021 budget strategy and savings. Standard action plans, which will be utilised during the review and implementation stages, will feed into the overall transformation programme so that resources can be managed and programme slippages can be identified.

5.4.9 Every service area across the Council has now been categorised into a high, medium or low priority for transformation review purposes and all reviews identified as high or medium priority have been incorporated in the 3-year programme.

5.4.10 Like many other local authorities the Council is keen to purse commercial opportunities to alleviate budget pressures, rather than relying purely on cuts in service or expenditure. To facilitate this the Council has recently employed a Commercial Director and a Commercial Manager.

5.4.11 There are significant overlaps between the transformation and commercialisation agenda therefore all commercialisation work streams will feed through the Transformation Programme to ensure that they are managed via one overarching, high level process. This will also ensure that commercialisation projects follow the same governance structure as transformation projects and that the corporate resources needed to deliver projects are aligned.

5.4.12 From 2018/19 onwards all budgetary savings will be managed via the transformation process and will be overseen by the Transformation Board.

5.5 INVESTMENT TO SUPPORT ECONOMICGROWTH AND THE STRATEGIC REVIEW OF THE COUNCIL'S ROLE IN THE DELIVERY AND USE OF ASSETS

5.5.1 The Council will continue to prioritise and invest in economic growth and this will play an integral part in the Council's budget strategy going forward. This in turn should deliver significant financial benefits for the Borough in terms of retained business rates income and job creation.

5.5.2 It is proposed that any business rate growth over and above that already built into the base revenue budget will be earmarked to provide investment in the Council's regeneration or transformation programme. This will assist the Council in delivering its key transformational and economic growth aspirations.

5.5.3 One of the commercial themes within the Council's budget strategy is the proposal to invest in assets to generate a revenue return. This investment may be in the form of improvement sums to redevelop assets already in the Council's ownership or the purchase of new assets to expand the Council's existing property portfolio.

5.5.4 This commercial work stream will be complemented by a transformation review of the Council's estates service, which has recently commenced.

5.6 Use of Reserves

5.6.1 The Council's Medium Term Financial Plan projections assume that £0.5m will be drawn from reserves over the period to 2021. This £0.5m will be used to balance the revenue budget and provide additional time for savings to be delivered.

5.6.2 This £0.5m will be funded from one-off budgetary underspends anticipated in the current financial year.

5.7 **Summary**

5.7.1 The table below provides a high level indication of the savings currently included within the Medium Term Financial Plan and the indicative residual funding gap that still needs to be addressed within the budget.

Table 4 – Residual Funding Gap

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Funding Gap	2,053	1,348	1,320
Savings areas identified	(2,053)	(1,101)	(1,020)
One-off use of Reserves		(200)	(300)
FUNDING GAP	**-**	**47**	**-**

5.7.2 The above budgetary position assumes that all savings included within the Medium Term Financial Plan, including the assumed transformational savings deliverable from the 3-year programme, are achieved. It should be noted that a large proportion of the savings have not yet undergone a detailed assessment as the transformation reviews have not yet commenced. This position will be reviewed and updated as the transformation reviews and scoping exercises take place.

5.7.3 The figures show that, if the transformation programme delivers the currently projected level of savings the Council will be able to set and deliver a 3 year budget covering to period up to 2021. A report setting out the detailed budget and savings proposals over the period to 2021 will be brought to members in the coming months.

6. IMPLICATIONS

6.1 Policy
There are no policy implications arising from this report

6.2 Legal
There are no legal implications arising from this report.

6.3 Financial
The financial implications are set out in detail throughout the report.

6.4 Staffing Implications
Staffing implications will likely arise over the budget period as a result of the need to reduce costs in line with the funding reductions. Where possible any such staffing reductions will be managed through natural staff turnover. A key aspect of the transformation agenda is to pursue commercial opportunities therefore savings may be delivered by utilising any identified staffing capacity to generate increased income rather than through staffing reductions.

6.5 Environmental, Planning Implications, Crime and Disorder Implications, Health and Safety implications.

There are no direct implications arising from this report

7.0 Budget Timetable

December	-	Draft budget proposals presented to Cabinet Consultation commences Member Briefings
January	-	Consultation period
February	-	Draft Financial Strategy presented to Cabinet with feedback from consultation
March	-	Final Financial Strategy and Council Tax setting report presented to Council

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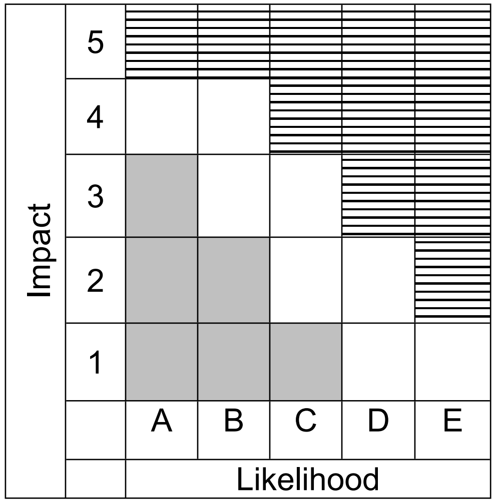
Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	Nov 17	The areas set out in the budget strategy do not deliver the level of savings required to balance the funding gaps over the period	▪ Cuts in service levels ▪ Inability to deliver statutory services ▪ Unplanned draws from reserves ▪ Council's financial standing deteriorates	▪ Transformation Board ▪ Retention of adequate levels of reserves ▪ Financial Strategy and Plans	C4	C2	Corporate Finance Manager	Financial Strategy
2	Nov 17	Council's financial standing is severely jeopardised as a result of the funding cuts	▪ Cuts in service ▪ Deterioration in quality of statutory services ▪ Insufficient funds to invest in regeneration of Borough	▪ Retention of adequate levels of reserves ▪ Inclusion of contingency budgets in financial projections ▪ Long term Financial Strategy and Plans	B4	B2	Corporate Finance Manager	Financial Strategy
3	Nov 17	Savings identified in the Medium Term Financial Plan are not deliverable	▪ Unanticipated cuts in service delivery ▪ Deterioration in quality of statutory services ▪ Insufficient funds to invest in regeneration of Borough ▪ Unplanned draws from reserves	▪ Monitoring of the overarching transformation / budget programme	C3	B2	Corporate Finance Manager / Transformation Manager	Action the scoping work on transformati on reviews to firm up potential savings

Risk Scoring



<u>Likelihood</u>:
A = Very Low
B = Not Likely
C = Likely
D = Very Likely
E = Almost Certain

<u>Impact</u>
1 = Low
2 = Minor
3 = Medium
4 = Major
5 = Disaster