

WYRE FOREST DISTRICT COUNCIL**CABINET**
20th DECEMBER 2016**Medium Term Financial Strategy 2017-20 Revised Version updated for
Provisional Finance Settlement received 15th December 2016**

OPEN	
CABINET MEMBER:	Councillor N J Desmond
RESPONSIBLE OFFICER:	Chief Financial Officer
CONTACT OFFICER:	Tracey Southall, Ext 2100 tracey.southall@wyreforestdc.gov.uk
Appendix 1 Appendix 2 Appendix 3 Appendix 3/1 Appendix 3/2 Appendix 3/3 Appendix 3/4 Appendix 4 – Part 1 Appendix 4 – Part 2 Appendix 4 – Part 3 Appendix 5 Appendix 6 Appendix 7	Base Budget Projections 2017-20 Variance Analysis Cabinet Proposals Policy on Loans to Third Parties Policy on Capital Portfolio Fund Green Street Depot Investment Brinton Park HLF Bid Part 1 – Fees and Charges for Noting Part 2 – Fees and Charges - Cabinet Part 3 – Fees and Charges - Council Risk Management Capital Programme 2016-17 onwards Efficiency Plan Updated <i>The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)</i>

1. PURPOSE OF REPORT

- 1.1 In accordance with the Council's Budget and Policy Framework Procedure Rules and in line with the Wyre Forest Forward programme, to provide the Cabinet with financial information in order to make proposals for the Budget Strategy for the period 2017-20.

2. RECOMMENDATIONS

The Cabinet is asked to NOTE:

- 2.1 **The fees and charges as set out in Appendix 4 – Part 1.**

The Cabinet is asked to ENDORSE and RECOMMEND to the Cabinet Financial Strategy Advisory Panel for scrutiny:

- 2.2 **The Council's updated Medium Term Financial Strategy;**

- 2.2.1 **Cabinet Proposals – taking into account the impact on the Council's Capital and Revenue Budgets for 2017-20 (Appendix 3) including;**

- a) **Approval of the new Council Policy on Loans to Third Parties to support our corporate priority of regeneration and economic development as set out in Appendix 3/1 of this report;**
- b) **Approval of the new Council Policy to create a Capital Portfolio Fund to support our corporate priority of regeneration and economic development and to create a net revenue income stream as set out in Appendix 3/2 of this report;**

and that the approval of both in-principle decisions on a) Policy on Loans to Third Parties and b) Policy to create a Capital Portfolio Fund includes:

- i) **That an initial allocation of £10m to support progression of the policy on Loans to Third Parties and £25m to support progression of the policy of a Capital Portfolio Fund is made to the capital programme in 2017-18, this being a maximum sum in both cases. Expenditure will be subject to specific approval of the business case for each proposal by the Cabinet following consideration by Overview and Scrutiny Committee and due diligence.**
 - ii) **That the financing of such expenditure be delegated to the Chief Financial Officer and that requisite amendments are made to the revenue budget to reflect potential financing costs (likely to be PWLB loan finance) and income streams to support the initial capital allocation in a) and b) above.**
 - iii) **That subject to this approval, delegation is given to the Chief Financial Officer to make the requisite updates to the Financial Regulations and Treasury Management Service Strategy (TMSS) in due course.**
- c) **Approval of the Community Leadership Fund for 2017-18 of £33,000;**
 - d) **Proposals for capital investment into the Green Street Depot site of up to a maximum of £1.1m for Phase 1 of works to update the asset to an improved standard and to provide more potential for increased commercial viability for the depot service. Proposals for a second phase for further investment will be subject to approval of a full business case in due course;**
 - e) **Approval of £100,000 of capital funding towards a Heritage Lottery Bid of up to £3m for the development of Brinton Park;**
 - f) **Approval of a further Localism Fund allocation of £50,000 in 2017-18;**
 - g) **Approval of funding of £25,000 for a Master Plan for Stourport Riverside in 2017-18.**
 - h) **Approval of increased targets for savings under the Wyre Forest Forward Programme in 2017-18 onwards (para 7.2).**

- 2.2.2 The level of net expenditure and resultant Council Tax for 2017-20 as per paragraph 7.3;
- 2.2.3 The fees and charges in line with this strategy and the impact on the Council's Revenue Budget for 2017-20, as shown in Part 3 of Appendix 4;
- 2.2.4 The Base Capital Programme and Vehicle, Equipment and Systems Renewals Schedule as set out in Appendix 6, Appendices A and B;
- 2.2.5 The variations to the Capital Programme and Vehicle, Equipment and Systems Renewal Schedule in accordance with the Council's Budget Process.
- 2.2.6 The Revised Efficiency Plan as set out in Appendix 7.

The Cabinet is asked to APPROVE:-

- 2.3 The fees and charges as set out in Appendix 4 – Part 2.

The Cabinet is asked to DECIDE:-

- 2.4 That, if no asset transfers can be agreed by 7th February 2017 on the basis outlined in paragraphs 4.20 – 4.23 below, the paddling pools in Wyre Forest will cease to be operated from April 2017 and the revenue budget for them will be removed.

3. THE ROLE OF THE CABINET FINANCIAL STRATEGY ADVISORY PANEL

- 3.1 The cross-party Cabinet Financial Strategy Advisory Panel was established in August 2014 and has been continued to assist with this year's budget process. The work of the panel will inform the Cabinet's consideration of the proposed strategy at its meetings on the 20th December 2016 and 7th February 2017.
- 3.2 The first three meetings of the Panel in September, October and November reviewed fees and charges as agreed at February 2016 Council. The third meeting also set out the Challenging Financial Landscape and updated our base financial position. This meeting also considered Fees and Charges including specific proposals on Car Parking and Extra Capacity Bins where a one-off charge of £45 to cover a three year period is proposed for new applications from April 2017. The Panel agreed recommendations to Cabinet on Fees and Charges including a proposal to cease making a cemetery burial charge for children under 5; this proposal has been accepted by Cabinet and Appendix 4 reflects this. The main focus of the fourth meeting on the 10th January 2017 will be Cabinet Proposals and Alternative Budget Proposals and the final meeting on the 25th January will cover final Cabinet proposals and budget consultation results. The process feeds into key decisions about the shape of the strategy to be approved by full Council in February 2017, when the council tax will also be set.

4. CONTEXT AND OVERVIEW OF THE FUTURE

- 4.1 Our net revenue budget will have reduced from £16.4m in 2009-10 to £10.91m in 2018-19 based upon current plans. This represents a fall of around 33% in absolute terms, and more in real terms. The total savings target from the Wyre Forest Forward programme including all Cabinet Proposals has been increased to **£3.832m** in 2019-20, of which projections show we should achieve £2.836m (74%); forecast as at **December 2016**. The further target is particularly challenging but early work has already started to progress savings plans and we are optimistic this is achievable, especially when we consider the Council's strong track record in reducing expenditure since 2009. The current and planned proposals go a considerable way towards closing the gap between what we are spending and our income. Alongside this significant reduction, the Council has overseen its most significant capital investment programme in many years, including the opening of the new leisure centre. The successful completion of this project is confirming even higher levels of savings than forecast for the Council going forward, as well as securing first class leisure provision. Major injections of finance also continue in the Council's key priority of securing the economic prosperity of the district.
- 4.2 Whilst there is an increased level of general reserves available towards balancing the budget of £3.739m (including the £1m Working Balance) following the 2015-16 Final Accounts Savings, it is clear that the future financial position for the Council will continue to be challenging. This is particularly in the light of the fiscal uncertainty given the result of the European Referendum with austerity measures set to continue to balance the national budget. However it is still too early to judge the impact of the decision to leave the European Union on local government Finances; at the moment the only tangible impact has been modest financial market volatility but this has not had a material impact to date. The Bank of England reduced the Bank Base Rate to 0.25% in early August 2016, the first change since 2009, and although this was held in early November, there remains speculation that there could be further stimulus to come. The impact of this will continue to be assessed and taken into account as the revised budget process progresses. The fall in Base Rate has had a 'knock on' effect upon Public Works Loans Board (PWLb) borrowing rates, so there may be potential savings in respect of future borrowing; this will be kept under review. The reduced level of funding currently programmed for the Council in the future is being mitigated by a continuing raft of transformational reviews being developed and implemented as part of the Wyre Forest Forward programme over future years.

Government funding and controls over council expenditure

- 4.3 Significant funding challenges will continue for local government throughout this Parliament exacerbated by the uncertainty due to the fundamental reform of the funding streams including the phasing out of Revenue Support Grant (RSG), 100% Business Rates Retention, transfer of new burdens and reform of New Homes Bonus Funding. However, ahead of the Autumn Statement at the Conservative conference in October, the new Chancellor of the Exchequer confirmed the Government would abandon previous plans to run a fiscal surplus by 2020. However, Mr Hammond added: "The task of fiscal consolidation must continue." So the impetus for control of day- to-day public spending, to deliver value for money to aid the overall economy continues. **The Provisional Finance Settlement received on the 15th December 2016 has provided details of the**

Government's response to the New Homes Bonus Consultation revealing even more reductions in this key funding stream. Details of these further changes are covered in this report.

4.4 **Multi -year Settlements and Efficiency Plans**

4.4.1 The Government announced that it was to offer councils a four year settlement as part of last year's provisional local government finance settlement. It was suggested that any council wishing to take up the offer would need to submit an efficiency plan.

4.4.2 February 2016 Council approved our Efficiency Plan – see at the following link: http://www.wyreforest.gov.uk/council/docs/doc50714_20160224_council_agenda.pdf. This has now been updated and is contained in Appendix 7.

4.4.3 In a letter to local authorities dated 10th March 2016, the Secretary of State set out his expectations for efficiency plans:

“I do not intend to provide further guidance on what efficiency plans should contain – they should be locally owned and locally driven. But it is important that they show how this greater certainty can bring about opportunities for further savings. They should cover the full 4-year period and be open and transparent about the benefits this will bring to both your council and your community. You should collaborate with your local neighbours and public sector partners and link into devolution deals where appropriate.”

4.4.4 Given the fact that the Government faces a continuing regime of austerity and reduced funding for local government this Council together with many others applied to take up this offer as there is a risk that those who do not may bear the brunt of further funding reductions. We received confirmation on the 16th November that our application has been accepted and we are now formally on the multi-year settlement.

4.4.5 The key figures from the Council's final 2016 settlement were as follows:

£	2016/17	2017/18	2018/19	2019/20
Revenue Support Grant (RSG)	1,179,060	510,220	100,680	0
Business Rates Baseline	2,602,060	2,653,230	2,731,510	2,818,810
Business Rates adjustment (negative RSG*)	0	0	0	-356,790
Transition Grant	43,230	43,080	0	0

**Note to table: When applying to accept the offer of a multi year settlement, dissatisfaction was expressed with the proposed negative Revenue Support Grant in 2019-20 with a request that this is addressed as part of the move towards 100% retention of business rates. However it has now been confirmed that this adjustment will proceed.*

- 4.5 The 2017-18 Provisional Local Government Finance Settlement was announced on the 15th December 2016.

The main points from the Ministerial statement were as follows:

- Core Spending Power will be increased from £43.6bn in 2016-17 to £44.7bn for 2019/20;
- A Council Tax referendum limit of 2.0% will be maintained for social services authorities and for district councils increases of less than 2% or up to and including £5 (whichever is higher) will not be subject to a referendum;
- As widely reported in the media beforehand, the annual Social Care Precept of 2% can be applied at 3% in 2017-18 and 2018/19 subject to a maximum of 6% across the period 2017/18 to 2019-20;
- New Homes Bonus grant in 2017-18 will be paid on the basis of 5 years award and from 2018/19 on the basis of 4 years award; there will be a baseline growth of 0.4% for the annual grant award for 2017-18 and from 2018-19 additional conditions will be applied which will be subject to further consultation in the new year;
- 97% of councils applied for a four year Settlement.

Business rates

- 4.7 In October 2015 plans to allow councils to keep 100% of business rates were announced. This change will not take effect until 2020 and will involve significant redesign of the local government finance system. The then Chancellor announced that, as a result, core revenue support grant would be phased out, the uniform rate would be “scrapped” (although see below) and certain unspecified additional responsibilities would be transferred to local government. The proposal does not involve transferring responsibility for setting the poundage, except that all councils would be able to reduce rates (a power they already have) and elected Mayors would be able to increase the poundage by up to 2p but only for infrastructure projects and only with the support of business leaders through the local enterprise partnership. The proposal means that it will be even more important for Wyre Forest to invest in activities that support economic growth (as this ultimately translates into business rates). However it is accompanied by the increased risk that it and other councils will not be able to shield local communities if there are future significant reductions in business rate income, whether because of closures, economic downturn or successful appeals against valuations – the Council will not be able to increase the poundage to make good the impact of any loss of business rates income. The consultation on these proposals ended in late September 2016, followed by a 2017-18 Local Government Finance Settlement Technical Consultation Paper; this Council, submitted robust responses to both papers whilst also contributing to Worcestershire and other wider responses.
- 4.8 The nature of this risk has already been exposed by the experience of the Worcestershire business rates pool in 2014-15. It was unable to protect the

member Councils including Wyre Forest against the severe impact of the GP Surgery appeals. This resulted in a lower contribution to General Reserves of circa £260k from the 2014-15 accounts, which represents a reduction of around £290k as a direct result of business rate appeals compared to the pre-audit reported saving of £550k for that year.

- 4.9 The decision to remain a member of the newly reformed Worcestershire Business Rates Pool will help to protect the Council from business rate reductions and help maximise the benefit by retaining more of the business rates delivered from economic growth within Worcestershire. Economic and subsequent business rates growth remains a key priority for this Council. The position in relation to further appeals and resultant uncertainty due to the impact on performance remain a concern; this is being managed by the Chief Financial Officer in conjunction with the other treasurers within the Pool. Business rates projections included within this report will be reviewed and revised if necessary before budget recommendations are finalised. It is likely Business Rate Pools will cease when the new system is introduced since there will no longer be a levy.
- 4.10 At a Special Full Council meeting on 24th February 2016, the decision was taken to move to all-out elections from 2019-20. This will provide welcome savings in the future.

The Context in Wyre Forest

- 4.11 Following the whole council elections in May 2015 and the reduction in size of the council from 42 to 33 members the Council continues with the two approved Corporate Plan priorities:
- **Support you to contribute to a successful local economy.**
 - **Support you to live in clean, green and safe communities.**
- 4.12 The Council continues to respond positively to austerity and has an excellent track record in delivering savings, with well over £5m achieved from 2010 to 2016. This proactive approach to service delivery within a reduced funding envelope must clearly continue over the term of this budget strategy and beyond. The Council's approach to aligning its expenditure with income over time has successfully used three main levers:
- a) Making the Council as efficient as it can be in its structures and external and internal processes. This is driven through the Wyre Forest Forward transformation programme, supported by work to ensure that services are on line and digital by default and by the ICT strategy;
 - b) Implementing alternative delivery structures where this represents best value. Examples include the shared services that have been implemented since 2010 and the Council's strong track record in localism, transferring responsibility for assets and services to local organisations, including town and parish councils;
 - c) Growing its income. Total external income generated has increased by £785k since 2013-14 while circa £215k a year of income has been generated from tenancies and ICT support charges at Wyre Forest House.
- 4.13 The Council is progressing well with the Wyre Forest Forward programme of savings. Already the target savings have been achieved for 2016-17 and

£2.836m or 74% have been achieved against the target of £3.832m in 2019-20 (as at end December 2016). This has been helped greatly by the savings from the new leisure centre and the good news on the rentals for Wyre Forest House. However, each efficiency saving found reduces the potential for efficiencies in future years. Many councils are being forced to look for savings from service reductions. Wyre Forest continues to deal with funding reductions by efficiencies and income generation wherever possible with service reductions a last resort.

- 4.14 While the Council is performing well with ambitious savings plans to bridge the gap between reducing funding and the cost of services, it will become increasingly challenging to maintain the pace of change. The creation of the Town Council for Kidderminster and other proactive transformation work streams has provided some mitigation of risk and will help ensure continuity of a sustainable budget but we need to go further still to keep pace with austerity.
- 4.15 The Council continues to use systems thinking in order to drive change to how it delivers services. There is focus on the customer and meeting their needs in the most effective way possible, driving down cost by simplifying processes and reducing waste. The approved purposes of Wyre Forest District Council are set out in the chart that can be viewed on the following link to our website:
http://www.wyreforestdc.gov.uk/media/144533/Outcomes_Diagram.pdf
- 4.16 Even in priority areas, it has been recognised that services should not continue to be organised and funded without challenge, as all areas need to make a contribution to making our financial situation sustainable through growing income, transformation and reviews to reduce waste. Adopting only two priorities has allowed the Council wider scope for seeking savings from other areas of activity, the Council will find it difficult to remain financially sustainable if extensive areas are categorised as a priority and shielded from change or reductions.
- 4.17 There will be opportunities for more shared services in the future, and we should actively seek opportunities for Wyre Forest District Council to host them in line with our strengths. We will continue to consider opportunities in the future, subject to each business case for change and alignment with our transformation programme.
- 4.18 This Council has not taken a decision to join the West Midlands Combined Authority at this time. It will continue to monitor the progress of the new body and will keep under review the cost and benefits of full or non-constituent membership. Worcestershire councils and partner organisations produced proposals for devolution and had a constructive meeting with Lord Heseltine in April. Lord Heseltine set out the Government's model for devolution. It is clear that Government is working on larger geographic footprints than single Counties and would not accept proposals that lacked a combined authority and elected mayor. Organisations in Worcestershire are continuing to work together to see what can be done without a devolution deal and to assess whether a different configuration or arrangement could achieve the desired outcomes, whilst continuing to monitor the progress of those deals already agreed and the evolving position of the Government on deals outside of the City Mayor model. Examples of such joint working include:
- a pioneering service delivery model called "Connecting Families" which is focused around a single vehicle comprised of resource from multiple organisations, working to coordinate the public sector approach to moving

individuals and families from dependency to independence. The pilot is live in Redditch with the expectation of roll out across the county in 2017.

- The Data Sharing project actively being worked on by the Partnership Executive Group in collaboration with KPMG is an important part of this new service delivery model. The project is ambitious but the potential benefits are significant across the whole of the public sector.

- 4.19 Cabinet on the 22nd November 2016, approved proposals for the phasing out of the Parish Support Fund Grant by 2019-20 following a period of consultation with the Parish and Town Councils. This has saved a total of £125,660 over the term of this Strategy. However, The Council continues to take positive steps with the objective of empowering Parish and Town Councils and local groups to deliver more services, including the promotion of the separate Localism Fund that stands at £50,000 in the 2016-17 budget. This will allow all Parish and Town Councils the same potential to work with the Council and benefit from this funding stream. The potential for the extension of the “local tax lock” to Parish and Town Councils would mean there would be a need for a referendum for proposed increases above the specified amounts. This could impact adversely on Localism as it will limit the ability of these partners to raise funding from Council Tax.

Paddling Pool Provision

- 4.20 Paddling pools are an outmoded form of play provision, with only Wyre Forest still operating them in Worcestershire. The Cabinet reviewed water play provision and invested in new splash pad facilities in 2012-13. Alongside this strategy Cabinet adopted a policy that it would not continue to operate any paddling pool where major capital costs arose and it was economically unviable to repair them.
- 4.21 There are ongoing requirements to reduce the Council’s net revenue expenditure, and a further review has identified this area of revenue expenditure as no longer affordable or necessary when there is excellent provision for the district in the splash pad at Brinton Park that was installed in 2013.
- 4.22 As part of the localism agenda discussions have therefore been undertaken during the previous and current financial years with the town councils and with private sector operators at Stourport Riverside to establish whether they would wish to take over responsibility for operating the paddling pools with a reducing grant over three years from the District Council. In the case of Stourport this included whether there was commercial opportunity to charge for usage.

The proposals of a gradual reduction in WFDC subsidy for the paddling pool provision would commence in 2017 and, if signed up to by the town councils would deliver the following revenue budget savings.

Table 4.24	Year 1 2017/18	Year 2 2018/19	Year 3 2019/20
St Georges	zero	£2,141.50	£4,283.00
Riverside North Park	zero	£2,035.94	£4,071.88
Stourport	zero	£5,812.10	£11, 624.19
Totals	zero	£9,989.54	£19, 979.07

Unfortunately, these discussions have produced no positive expressions of interest so far.

- 4.23 Cabinet is invited to decide that, if no asset transfers can be agreed by 7th February 2017, the paddling pools should cease to be operated and the revenue budget associated with them should be removed after any decommissioning costs and works have been concluded. This would be reflected in the final budget figures that will be agreed by Council on 22nd February 2017. This would save circa £20k in the revenue budget from 2018-19 onwards.

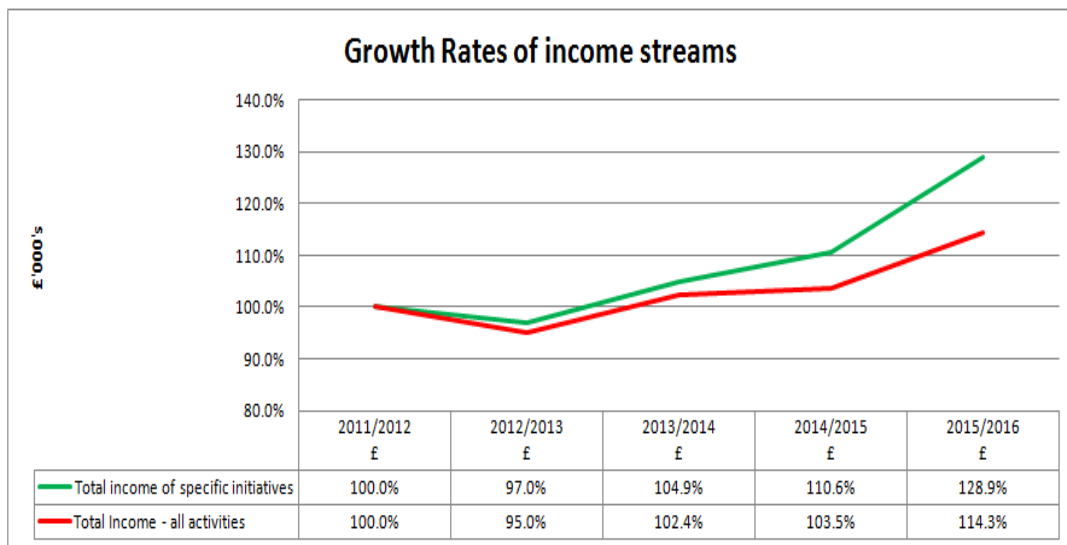
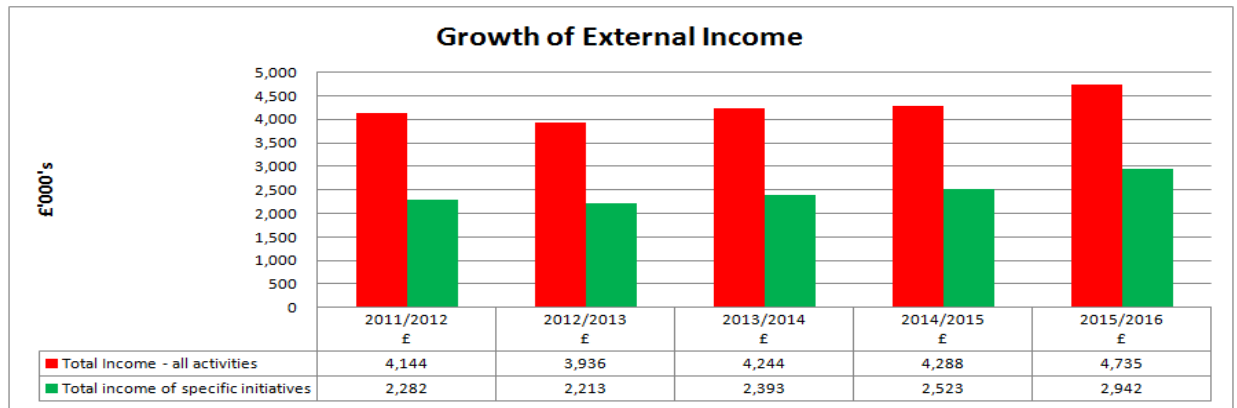
The ongoing Budget Challenge

- 4.24 The challenge for budgets over the next 5 years will continue to be how to maintain our services as far as possible within the shrinking funding envelope. In line with steps taken over the last few years, there is therefore an increased impetus for growing the Council's income:
- a) growing business rates income in line with or ahead of government forecasts so the local economy can benefit from the funding we are able to retain under the changing regime;
 - b) growing council tax income by supporting housing growth, including through the review of the local plan;
 - c) increasing fees and charges where possible ahead of inflation. This ensures that users of services contribute more to support those services than council tax payers as a whole;
 - d) continuing the Council's commercial income from a variety of sources such as ticket sales and events, rents, work undertaken for other organisations and private households, advertising and sponsorship. External income generation to supplement other funding is a cornerstone of our financial strategy. The success of the Income Generation Group has helped the Wyre Forest Forward Transformation programme and must be maintained in the future;
 - e) Consideration of new innovative service delivery models such as Local Authority Trading Companies (LATCs) and capital investment to generate ongoing revenue income streams whilst maintaining service provision. Examples include the New Street bed and breakfast accommodation project and a new industrial unit scheme.

The significant savings from Wyre Forest House of circa £500kpa and income of around £215kpa from tenancies including a local accountancy firm and Worcestershire Regulatory Services (WRS) are helping to protect front-line services. Further tenancies continue to be secured and the marketing of our assets will continue to provide new income streams to support the costs of services.

4.25 Income Generation

The improvement in income generation over the past 5 years is shown in the following graphs :



The success of the income generation work can be further evidenced through the following table that analyses growth over key income streams:

	Actual	Actual	Actual	Actual	Original Budget	Revised Budget	
Section	Sum of 2012/13	Sum of 2013/14	Sum of 2014/15	Sum of 2015/16	Sum of 2016/17	Sum of 2016/17	Growth (2012/13 to revised budget)
	£	£	£	£	£	£	
Parking and Enforcement	1,272,277	1,312,088	1,293,199	1,347,659	1,407,170	1,388,820	9.16%
Waste Collection	547,073	586,564	701,361	791,408	741,120	804,920	47.13%
Property	604,164	617,258	543,655	676,209	549,330	547,670	-9.35%
Development Control	285,685	400,132	357,214	297,317	374,990	296,460	3.77%
Env Health and Licensing	230,423	230,292	235,643	236,099	231,700	230,770	0.15%
Parks and Green Spaces	148,810	164,484	142,564	192,399	160,560	217,700	46.29%
Revenues	152,552	171,497	169,408	208,078	155,000	180,000	17.99%
Land Charges	155,573	188,165	161,382	152,199	156,580	150,110	-3.51%
Building Control	141,313	153,409	155,304	118,911	133,100	121,700	-13.88%
Trading Accounts	100,287	147,781	104,020	117,584	148,070	114,400	14.07%
Town Hall	50,978	57,307	107,770	108,984	102,720	96,150	88.61%
Bewdley Museum	44,312	52,808	65,252	74,385	57,420	84,940	91.69%
Cemetery	35,983	46,247	49,123	77,061	52,000	70,000	94.54%
Admin Buildings	11,984	11,045	14,958	105,933	100,050	151,750	1166.27%
ICT Services	-	-	10,156	147,065	84,500	99,500	N/A
Grand Total	3,781,414	4,139,077	4,111,009	4,651,291	4,454,310	4,554,890	20.45%

This illustrates the excellent progress the Council continues to make in this key cornerstone of our strategy. However given the scale of the funding gap we face,

we will further develop our thinking on innovative ideas for external income generation. This will include potentially utilising our ability to raise capital under the prudential borrowing regime to invest, to create new ongoing revenue income streams subject to business case viability and due diligence.

- 4.26 Current examples of the Council's innovative approach include the Evergreen Fund initiative, agreement in principle for the creation of Local Authority Trading Companies and the more recent consideration of the conversion of a property in New Street Stourport on Severn for homelessness/bed and breakfast accommodation and investment in new industrial units. The Evergreen Fund will help the Council to realise the regenerative benefits of some of its vacant and underused assets by investing capital receipts in commercial projects and other developments to secure long term revenue returns. The fund currently holds £590k after the first allocation was agreed for £50k towards the New Street bed and breakfast accommodation proposal. This would reduce by £500k if the industrial unit proposal is progressed. Officers continue to actively consider how to utilise this to maximise the benefit for the district. Each business case will be given careful consideration. It is however evident that in order to realise the Council's ambitions to regenerate the district through property investment that we need to go further and consider use of our Prudential Borrowing powers and new models for service delivery and growing both the economy, housing and revenue income streams.
- 4.27 The gap between expenditure and the projected total funding resources available grows significantly in 2018-19 due to the impact of the reform of New Homes Bonus and new methodology for calculation of core funding and subsequent accelerated reduction in Revenue Support Grant. Therefore, the Council will continue on the trajectory towards becoming a much leaner organisation. This will require bold and far-reaching decisions by the Council in the coming period including changes that are likely to be challenging for the public and councillors alike. Given that these changes need to be implemented before April 2019, the council has two years in which to continue its programme of reform and implement it. In order to ensure that there can be confidence about the Council's financial viability from 2019-20 onwards, the Cabinet will take further relevant decisions no later than the end of 2017 on changes within its remit and for any that require full Council approval they will feature in the Financial Strategy prepared in the latter part of 2017.

5. KEY ISSUES - BASE POSITION, PRESSURES AND ASSUMPTIONS

- 5.1 **Attached at Appendix 1** is the forecast base budget position for the period 2016-17 to 2019-20. The Capital Programme together with the details to support the related recommendations in this report is contained in Appendix 6.
- 5.2 The Base Budget shown at Appendix 1 includes the financial implications of all previously approved Cabinet Proposals which reduced costs in areas such as the Wyre Forest Forward Programme. New Cabinet Proposals are considered within this report at Section 7 and Appendix 3.
- 5.3 Inflation has been included in the Base Budget for 2017-20 onwards as follows:

Table 5.3 Inflation Assumptions

Inflation Assumptions	2017-18 %	2018-19 %	2019-20 %
Pay (current local agreement for 2017/18, negotiation in progress for future years)	0.50	1.0	1.0
Business rates (to be confirmed in due course)	0	1.8	1.8
Other contractual commitments	included at actual	included at actual	included at actual

- 5.4 No other inflation has been included in the estimates for the financial strategy.
- 5.5 The Base Budget takes account of the current position in relation to the forecast level of interest that the Council can expect to receive. The current assumptions that have been used within the Base Budget are as follows:
- Expected returns in 2017-18 based on investment returns of 0.25%;
 - Expected returns in 2018-19 based on investment returns of 0.25%;
 - Expected returns in 2019-20 based on investment returns of 0.50%.
- 5.6 Summary of other main assumptions
- Government funding – reductions as set out in Section 6.
 - A freeze in Council tax for 2017-18 followed by anticipated increases of just under 2% for 2018-19 and beyond.
 - Fees & charges 5% minimum increase a year as a general guideline but commercial judgement as appropriate will be used for proposals. Car Parking has been subject to separate review. An important exception to this is for hackney carriages for which no increase is recommended for the third year due to the statutory requirement that this service is breakeven in terms of cost recovery.
 - Additional savings from the new Leisure Centre that opened on time and within budget and is proving to be immensely popular with the community. The Council has generated annual savings towards the Wyre Forest Forward savings target totalling £590,000 a year, well over the projection of £390,000 a year. This is due to favourable borrowing rates achieved so far of on average £20,000 per million loan taken so up to around £200,000 pa additional savings compared to the base business case.
 - Savings from partnership working with Kidderminster Town Council of circa £220,000 pa from 2016-17 and beyond
 - There is a Pensions Fund triennial revaluation in 2017. Current approved budgets include annual increases in pension deficit contributions. Treasurers across Worcestershire are working together with the actuary to contain costs within existing funding levels and are cautiously optimistic this will be achievable. To recognise the risk costs may increase, an additional £50,000 was included in the approved budget for 2017-18 and £100,000 in 2018-19 as part of last year's budget process. Also, a new general earmarked reserve was approved as part of the final accounts process of £500k; at that time it was estimated that up to £200k of this reserve could be needed to fund the

2017 revaluation. From dialogue so far with the actuary, it now looks unlikely that this earmarked reserve will be required for pension funding so this can fall into general balances. The base budget assumes an increase in future funding contributions from 14.1% to 15.3% from 2017-18 as recommended by the actuary. This increases the annual cost of the future funding element by circa £76k pa but the increase can be contained within overall budget provision for pensions.

- An increase of 307 Band D equivalent properties or just under 1% in the 2017-18 Council Tax Base. The increase is made up of new homes constructed and coming into occupation and also reductions in exemptions, discounts and benefit claimants that all contribute to a higher chargeable Council Tax Base for the district. The increase of just under 1% is considerably lower than achieved for the previous few years where the growth was closer to 3%. Although this reflects a much slower year for completion of new properties it is hoped that a minimum of 1% ongoing growth each year can continue to be achieved moving forward. This is lower than assumed in the government's figures for Settlement purposes but more realistic for this Council.
- A Collection Fund surplus of £90k pa has been assumed.

5.7 In terms of external Prudential Borrowing, the Council will enter into further external borrowing in 2016-17. This will continue over the medium and longer term and an average interest rate of 3% for 2016-17, increasing to 4% for 2017-18 and 2018-19 then 5% for 2019-20 has been assumed within the base budget to fund the cost of this.

5.8 Good progress continues to be made to meet the generic Wyre Forest Forward Savings Targets. The latest target savings from the revised budget are shown in the table below. The table that follows shows the breakdown and proposed use of reserves after Cabinet Proposals in the revised budget to illustrate the scale of the financial gap the Council needs to address:

Wyre Forest Forward Savings to be achieved in revised budget

Year	Amount	
2016-17	-	All savings fully achieved
2017-18	-	All savings fully achieved
2018-19	£566,560	
2019-20	£726,880	

Table 5.8 How the Strategy addresses the Financial Gap

	2016-17	2017-18	2018-19	2019-20
	£	£	£	£
Financial Gap				
Wyre Forest Forward Savings not yet achieved	£0	£0	£566,560	£726,880
Cabinet Savings from 2014-17 Financial Strategy not yet achieved	£56,920	£80,230	£69,590	£68,940
New Cabinet Proposal for further Savings	£0	£100,000	£150,000	£200,000
SUB- Total	£56,920	£180,230	£786,150	£995,820
Use of reserves from Proposed 2017- 20 Strategy	(£404,490)	£423,130	£656,300	£886,930
TOTAL	(£347,570)	£603,360	£1,442,450	£1,882,750

5.9 To create capacity to support the pace and scale of change the Corporate Leadership Team has made various allocations from the Innovation Fund (formerly known as the Transformation Fund) to meet the cost of additional

resource required to meet the ambitious innovation agenda. The Innovation Fund has been topped up by £100k from the General Risk Reserve as part of the revised budget process and currently stands at £313k taking into account all known commitments.

- 5.10 However there is confidence that the savings target that needs to be achieved for both Wyre Forest Forward and Cabinet Proposals over the next three years to close the funding gap and to avoid drawing on reserves is around **£1.9m.**
- 5.11 The introduction of the local council tax reduction scheme has generally been smooth. We charged a minimum of 8.5% in 2013, rising to 10% in 2014 and then 20% from April 2016 of council tax to people of working age. Collection rates have actually shown small improvements so far this year so no adverse impact has emerged to date. The demographics of the district, including rising pensioners who are protected and number of working age unemployed, albeit that this is on a downward trend, represent pressures on our Local Scheme.
- 5.12 This year the Council has looked jointly with other Worcestershire colleagues at ways to maximise council tax income including consideration of consistent council tax reduction schemes across all districts. Wyre Forest played an important part in this work producing the base business case to assist Worcestershire County Council who has led the review. Based on the results of this joint work stream the Leaders' Board concluded that the political diversity across the different councils did not support introduction of a standard scheme. However the discount policy of Wyre Forest in relation to long-term empty properties (being 100% discount for 1 month, 100% charge, i.e. no discount, thereafter) was identified as best practice and other Worcestershire Councils are actively considering implementing this change from 2017-18
- 5.13 Worcestershire County Council has committed to a transformation programme including moving to a commissioning authority and is running a raft of "Future Fit" projects. It has significant target savings to achieve against each of these projects. Examples of initiatives that have impacted on the district are as follows:
- **Worcestershire Regulatory Services (WRS)** – the withdrawal of the Trading Standards service by the County Council from April 2016 represents a risk to the ongoing sustainability of this Shared Service due to the reduced capacity for the recovery of fixed overheads. To mitigate this, the County have agreed to pay a contribution to the Shared Service in compensation. It is expected that this will cover the first two years giving an opportunity for review of the overall position in the meantime.
 - **Strategic Housing – Homelessness-** Worcestershire County Council allocated £300k to homeless services for 3 years from 2016-17. The majority of this funding is being used to fund the single homeless and childless couples housing related support service provided by County Community Projects (CCP) that is countywide. Districts have received a very small amount of this funding directly– around £30k in total although it is hoped the County's action will have a positive impact across Worcestershire.

The District Council cannot afford to bridge any funding gaps. The impact upon

our budget can only be determined once the County Council have made final budget decisions that impact on services this council provides.

The Development Plan

- 5.14 Significant progress continues to be made with **regeneration of the district**. To highlight only a few examples: Specsavers is investing in development at the redundant Romwire site, adjacent to Wyre Forest House and Chase Commercial is constructing new industrial units opposite Wyre Forest House; Aldi has secured permission for a supermarket at the entrance to the Silverwoods development, doubling its investment and contribution to jobs in Kidderminster and Oakleaf's new depot was opened in September 2015. Alongside Amtek's significant investment in its site on Stourport Road, the importance of this employment corridor to the district's economy has been underlined. The investments provide compelling recognition of the benefits of investing and expanding in Wyre Forest. We were the first district in Worcestershire to adopt an up-to-date Local Plan by several years, and are already well underway in reviewing it. The Local Development Order for South Kidderminster Enterprise Park was renewed in August 2015 for a further 3 years. Works to improve the public realm with the creation of Exchange Square and improvements to Vicar Street and High Street are complete following successful joint working with Worcestershire County Council. Phase 2 of the Hoobrook link road – Silverwoods Way, opened on schedule in September 2016.
- 5.15 If the Council does not plan for further significant growth in population in the medium to long-term, there is a significant risk of losing resources over time as Wyre Forest's population declines relative to the population of England. Significant growth could be delivered only through the next review of the local development framework which is planned for adoption in 2019, so it is not expected to contribute anything significant in the 2017-20 period.
- 5.16 Latest population mid-year estimates (2015 MYE) show that Wyre Forest has seen significant growth over the last 2 years with the population estimated to have increased by 1.1% between 2013 and 2015. This is the same growth as seen over the 10 years 2001-2011. Worcestershire as a whole has also seen a 1.1% growth 2013-15 compared with 4.4% 2001-11. Thus it can be shown that Wyre Forest has grown 5 times faster than between the 2 last censuses.

	2013 MYE	2014 MYE	2015 MYE	% change
England	53865817	54316618	54786327	1.7
West Midlands	5674712	5713284	5751000	1.3
Worcestershire	572168	575421	578593	1.1
Wyre Forest	98421	98960	99503	1.1

Latest projections (2014) show a projected increase in population to 104,840 by 2039. This equates to an increase in population of 5.9% over 25 years. This is much higher than the 3.2% growth predicted 2012-2031 based on the 2012 projections.

	2014	2039	% change
England	54316618	63281523	16.5
West Midlands	5713284	6486090	13.5
Worcestershire	575421	634939	10.3
Wyre Forest	98960	104840	5.9%

Compared with the growth projections from 2012, all have seen an increase with Wyre Forest rising from 3.2% to 5.9% growth. The population increase seen in Wyre Forest from 2013-15 is mirrored by the increase in house building during that time. The Local Plan will aim to cater for the expected levels of future house building to meet the growth needs of the district.

- 5.17 Significant growth can continue to help with our income and tax base in the long-term. The Council will have to provide some additional services (e.g. refuse collection) but many others are not elastic in response to population (e.g. museum, economic development, town centre, street cleaning). More people living locally would mean greater competition and demand for some services and provide greater opportunities for external income generation than might otherwise have been the case.

6. FUNDING: LOCAL AUTHORITY REVENUE FINANCE SETTLEMENT FOR 2017-18, BUSINESS RATES AND NEW HOMES BONUS

- 6.1 The Provisional Local Government Settlement was announced on the 15th December 2016. Figures for RSG remain unchanged; unfortunately the negative RSG in 2019-20 remains as previously forecast. The most significant change for this Council is a reduction in New Home Bonus Funding as explained below.

- New Homes Bonus grant in 2017/18 will be paid on the basis of 5 years award and from 2018-19 on the basis of 4 years award; there will be a baseline growth of 0.4% for the annual grant award for 2017/18 and from 2018/19 additional conditions will be applied which will be subject to further consultation in the new year;
- The impact of the introduction of a national baseline of 0.4% below which funding allocations will not be made means that for this Council for 2017-18 the first new 163 homes no longer qualify for the New Homes Bonus Funding. (40,979 council tax band D equivalent Properties multiplied by 0.4%). This is more severe and also a year sooner than modelled in the Consultation paper. We will be rigorously scrutinising the Government's calculations to check that they are fair and accurate. Unfortunately because housing growth slowed down significantly in 2016 we had growth of 176 properties so, after deducting the 163 baseline, this left just 13 properties eligible for the bonus giving new funding of just £27k (including affordable housing supplement) for 2017-18 compared to the previous estimate of £225k (all figures are Band D equivalents).
- An end to uniform Business Rates; introduction of 100% retention of Business Rates and phasing out of Revenue Support Grant as well as introduction of new responsibilities.

- 6.2 It is certain that Public sector funding reductions look to continue until 2020, with increasing reliance on locally raised income including Council Tax and the funding outlook for local government, districts in particular, is set to become significantly more challenging.

- 6.3 Table 6.3 below identifies the overall position in relation to the Government Grant, Business Rates, New Homes Bonus and Council Tax income. The RSG figures are based on the Provisional Settlement matching the Multi-Year Settlement

figures from last year's Finance Settlement, negative RSG remains. With the exception of Council Tax all figures are subject to final confirmation when the Final Settlement figures are issued in the New Year. There is a risk that we will not achieve the growth in business rates towards offsetting funding reductions. This would reduce balances significantly and will be kept under review. The table in 6.6 shows the value of the retained business rates separately for further information.

Table 6.3 Total Funding including RSG, New Homes Bonus, Business Rates and Council Tax

Year	Revenue Support Grant £	Business Rates £	New Homes Bonus £	Council Tax £	Total £
2015-16	2,019,010	2,547,610	1,692,990	6,533,320	12,792,930
2016-17	1,222,290	2,702,060	2,350,460	6,720,820	12,995,630
2017-18	553,300	2,773,230	1,885,760	6,783,860	11,996,150
2018-19	100,680	2,881,510	1,285,490	6,978,140	11,245,820
2019-20	-356,790	2,968,810	1,039,500	7,177,500	10,829,020
Total	3,538,490	13,873,220	8,254,200	34,193,640	59,859,550

6.4 Changes in funding following the announcement of the Provisional Finance Settlement are shown in Table 6.4 below:

Year	Business Rates Before Provisional Settlement £	Business Rates After Provisional Settlement £	Variance £	New Homes Bonus Before Provisional Settlement £	New Homes Bonus After Provisional Settlement £	Variance - Loss of Funding £	Extra Wyre Forest Forward Savings £	Extra Collection Fund Surplus £	Overall Variance = Reduction in Reserves £
2015-16	2,547,610	2,547,610	-	1,692,990	1,692,990	-	-	-	-
2016-17	2,687,060	2,702,060	15,000	2,350,460	2,350,460	-	-	-	15,000
2017-18	2,753,230	2,773,230	20,000	2,083,960	1,885,760	(198,200)	100,000	-	(78,200)
2018-19	2,851,510	2,881,510	30,000	1,500,000	1,285,490	(214,510)	150,000	40,000	5,490
2019-20	2,938,810	2,968,810	30,000	1,263,480	1,039,500	(223,980)	200,000	40,000	46,020
Total	13,778,220	13,873,220	95,000	8,890,890	8,254,200	(636,690)	450,000	80,000	(11,690)

6.5 The new arrangements for allocation of New Homes Bonus Funding pose a serious challenge to future financial sustainability for this and many other councils as the Council uses the bonus to fund its revenue activities, including important work on economic regeneration and development. This change is even more significant given the transition to the new funding model where business rates growth is of increased importance. The response to the consultation announced with the Provisional Settlement results in even deeper reductions in this key funding stream and there continues to be uncertainty going forward, as further consultation is to be issued in respect of 2018-19 onwards.

6.6 Business Rate projections based on the Worcestershire pooling agreement are shown in the table below. These take into account the Council's share of forecast growth from major redevelopments, appeals, reliefs, economic regeneration work; forecast increases in the multiplier for inflation and other Business Rates market intelligence. Whilst the table shows modest growth a cautiously optimistic

approach has been taken to retained growth based on latest local information. These estimates may require updating following completion of the statutory 2017-18 estimates for the DCLG in January 2017. The Table below shows the revised assumptions compared to the approved budget.

Table 6.6- Revised Value of Retained Business Rates –

Year	Value of Retained Business Rates - Approved Budget	Value of Retained Business Rates - Revised Assumptions	Variance-Increase, brackets show a decrease
	£	£	£
2015-16	2,546,550	2,547,610	1,060
2016-17	2,687,060	2,702,060	15,000
2017-18	2,803,230	2,773,230	(30,000)
2018-19	2,911,510	2,881,510	(30,000)
2019-20	2,998,810	2,968,810	(30,000)
Total	13,947,160	13,873,220	(73,940)

7. CABINET PROPOSALS

- 7.1 This report presents the Cabinet's proposed spending plans for the next three years.

Council tax

Inflation as measured by CPI is running below 1% at present (0.9% for October 2016). It is not expected to rise significantly by the time the Council sets council tax for 2017-18 at the end of February. In line with the continuing political commitment to keep increases below inflation over the medium term, it is proposed that the Wyre Forest element of council tax will be frozen for a second year for 2017-18 followed by an anticipated rise by 1.94% for both 2018-19 and 2019-20. The freeze in 2017-18 reflects current relatively low levels of inflation and supports all households in Wyre Forest. It also recognises the impact on household budgets of welfare initiatives, including the changes to Wyre Forest's council tax reduction scheme which took effect in April 2016.

Fees and Charges

The financial strategy continues with the approach previously approved by Council of increasing most fees and charges by an average of 5% a year. In 2017-18 the difference between the proposed Council Tax freeze by Wyre Forest District Council and the maximum £5 increase in Council Tax for which no referendum would be required is £165k. This contrasts with the estimated additional income from fees and charges of £110k in 2017-18 rising to £150k in a full year. However, not all of the increased income from fees and charges will be contributed by local residents as at least some will come from visitors and commuters to the area (for example in car park charges) and some will come from local businesses. Thus the increase in fees and charges alongside the Council Tax freeze means local residents overall will be better off than if the Council had instead increased Council Tax by either 2% or £5 (being equal to 2.43%).

Spending proposals

- 7.2 The Cabinet Proposals build on previously approved proposals for transforming

the Council and focus on regeneration that should promote business rates, council tax and property income growth, reducing the funding gap. They notably include two significant policy proposals that represent a very different approach compared to how this Council has previously operated. These new policies provide the opportunity for the Council to take a more proactive, business-like role in investment with focus on the safe-haven of property ownership. The seven proposals demonstrate ongoing commitment to affordable investment and growth as well also to localism and continuation of the Community Leadership Fund. They include five areas of investment to aid income generation, economic development and housing and funding for a Master Plan for Stourport Riverside as attached at Appendix 3. The Cabinet proposals are set out in more detail as follows:

- Introduction of a new Council Policy on Loans to Third Parties to help deliver our regeneration and economic development objectives in terms of both housing and commercial regeneration in accordance with our corporate plan priority “to support you to contribute to a successful local economy” whilst also potentially generating future income streams as set out in detail in Appendix 3/1. There is a recommendation that an initial allocation of £10m is made to the capital programme in 2017-18, to support progression of this policy, this being a maximum sum. Expenditure will be subject to specific approval by the Cabinet and due diligence of the business case for each proposal. This proposal is an important driver to support economic growth within the district and this is set out in full, including key risks in Appendix 3/1 of this report. Due to the fact that this will be funded primarily by prudential borrowing and that there may well be Minimum Revenue Provision (MRP) implications, this will also be reported to the Treasury Management Review Panel in February 2017.
- Approval of a policy for a £25m (maximum sum) Capital Portfolio Fund to support both regeneration and economic growth allied to our income generation/commercialism objectives. Expenditure would be considered based on individual business cases for each proposal with consideration by Overview and Scrutiny Committee and recommendation to Cabinet. PWLB borrowing costs would have to be met from ongoing revenue income returns and viability met by a positive net financial return to this Council. Like the proposal for a policy on Loans to Third Parties (above) this proposal is a further key driver to support economic growth. This is set out in full, including key risks in Appendix 3/2 of this report. Due to the fact that this will be funded primarily by prudential borrowing and that there may well be Minimum Revenue Provision (MRP) implications, this will also be reported to the Treasury Management Review Panel in February 2017.
- Approval of proposals for Phase 1 of major capital investment in the Green Street Depot site of up to a maximum of £1.1m now the decision has been taken to retain this key service delivery location. Proposals include essential updating and improvement work. Improvement of office accommodation is also proposed to allow for more efficient utilisation of this space and potential release for rental to generate external income where possible. A second phase of improvement work may be proposed and would be subject to approval of the final business case.
- Agree to the top-up of the single Localism Fund back to £50k to continue the good work done so far with Parish and Town Councils also extending it to other organisations. There will continue to be flexibility around grant funding from this

new fund to facilitate more clarity and easier access where appropriate, to pump prime the work of Parish Councils and Community Groups where it complements work and priorities of this Council and benefits local residents.

- Approval for the Community Leadership Fund for 2017-18 (£33k/year), to reflect the continuing effectiveness of this funding.
- Approval of £100k partnership funding in addition to £100k already available from Section 106 funding to support a Heritage Lottery Funding bid of up to £3m for improvements to Brinton Park.
- Approval of £25k funding for production of a Master Plan for Stourport Riverside development.
- Approval of increased targets for savings under the Wyre Forest Forward Programme of £100k in 2017-18, £150k in 2018-19 and £200k in 2019-20. Based on current progress with the achievement of these generic savings targets this is considered to be challenging but achievable.

7.3 Details of Cabinet Proposals are attached in Appendix 3. The following table demonstrates the forecast position for the Council when all of the Cabinet Proposals are incorporated into the Base Budget. The Council is forecast to hold a balance of **£1.177m** at the end of 2019-20 (see reserves table in 8.2):

Table 7.3 – Revised Forecast Financial Position including Cabinet Proposals *(before any Paddling Pool adjustment)*

	Revised 2016/17 £	2017/18 £	2018/19 £	2019/20 £
Net Expenditure on Services (per Appendix 1)	12,681,140	12,364,280	12,143,120	12,041,950
Total Net Expenditure on Services (per Appendix 1)	12,681,140	12,364,280	12,143,120	12,041,950
<u>Less</u>				
Cabinet Proposals identified in Appendix 3	0	145,000	(151,000)	(236,000)
Net Expenditure	12,681,140	12,509,280	11,992,120	11,805,950
Contribution (from)/to Reserves	404,490	(423,130)	(656,300)	(886,930)
Net Budget Requirement	13,085,630	12,086,150	11,335,820	10,919,020
<u>Less</u>				
Revenue Support Grant	1,179,060	510,220	100,680	(356,790)
Business Rates	2,602,060	2,653,230	2,731,510	2,818,810
Business Rates Growth	100,000	120,000	150,000	150,000
New Homes Bonus	2,350,460	1,885,760	1,285,490	1,039,500
Transition Grant	43,230	43,080	0	0
Collection Fund Surplus	90,000	90,000	90,000	90,000
Council Tax Income	6,720,820	6,783,860	6,978,140	7,177,500
WFDC Council Tax @ 1.94% increase 2018/19 onwards	205.36	205.36	209.34	213.40

7.4 The Cabinet proposals identified in Appendix 3 build on the savings identified within all previous Financial Strategies including five affordable growth/income generation/regeneration items to help progress the Council towards financial self-sufficiency.

8. WORKING BALANCES, RESERVES AND PROVISIONS

- 8.1 The Council has adopted the general principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Local Authority Reserves and Balances.
- 8.2 The following Reserves are available to assist the Council in meeting General Fund Expenditure 2017-20 as part of the Financial Strategy.

Table 8.2 - New Reserves table after all Cabinet Proposals

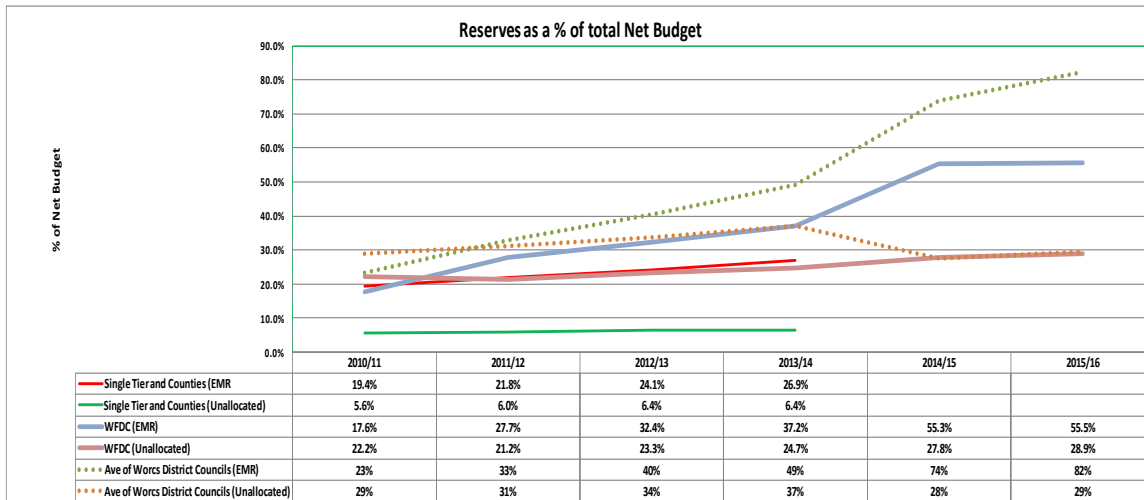
Reserves Statement	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Reserves as at 1st April	2,739	3,143	2,720	2,064
Contribution (from)/to Reserves	404	(423)	(656)	(887)
Reserves as at 31st March	3,143	2,720	2,064	1,177

- 8.3 In addition the Council holds a working balance of £1m.
- 8.4 The Council also currently holds earmarked reserves of £6.755m (as at 30th November 2016). It should be noted that the Council has commitments against such earmarked reserves and it includes a Business Rates Deficit Reserve of £1.3m previously held as a provision.
- 8.5 The following graph shows that both our general unallocated reserves (including the working balance) and our levels of earmarked reserves are a relatively small percentage of our annual net revenue budget. It also shows that our reserve levels are falling below those held by other district councils.

The anomalies in accounting for the current Business Rates Retention System is causing a spike in the earmarked reserves for 2014-15 and 2015-16 due to increased reserves for appeals, which we have been obliged to allocate at the external auditor's request. We should be mindful that these EMRs are for specific purposes and will almost certainly be required. In the extremely unlikely event that they were all imprudently, released for revenue expenditure they would not cover even 6 months' expenditure.

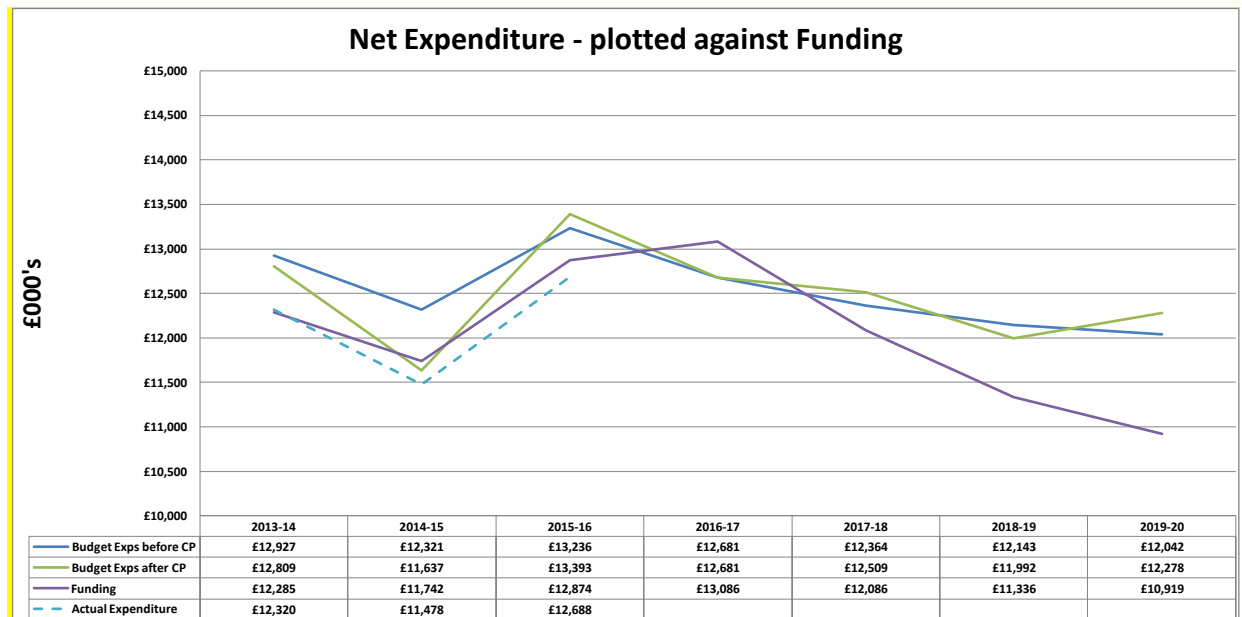
This analysis, together with the diminishing reserves shown in the table in 8.2, means this Council has extremely limited capacity to draw further on reserves to meet extra costs/further funding reductions. Indeed, with increased financial risk there is pressure to hold larger reserves to mitigate the impact of potential service reductions.

Figure 8.5 Graph to show Reserves as a Percentage of Net Budget Actuals



8.6 The following graph shows the net expenditure against available funding (excluding reserves) and illustrates the increasing funding gap as the years progress.

Figure 8.6 Revised Graph to show Net Expenditure compared to Funding 2013-14 to 2019-20



9. CAPITALISATION OF REVENUE EXPENDITURE

9.1 The Chief Financial Officer will apply any unallocated Capital Receipts to fund suitable expenditure at year end in consultation with the Chief Executive in accordance with delegated authority.

9.2 No applications have been made for capitalisation directions for 2016-17.

10. FINANCE STRATEGY

10.1 The Council needs a Medium Term Finance Strategy to maintain a sound financial structure for the future.

10.2 The Key Objectives are proposed as follows:

- To reduce expenditure to a sustainable level.
- A balanced budget within resources available identified into the medium term.
- To manage the Council's assets in order to achieve maximum efficiency.
- To manage the Council's investments efficiently and effectively to maximise interest generation, whilst protecting principal.
- To make realistic provisions for inflation, pensions, committed growth and legislative requirements whilst securing the Council's financial position.
- To set aside any available balances, initially to be used primarily for "one-offs" (e.g. investment, service or corporate growth) and/or depending on the amount of balances, used in a phased manner beyond one year to avoid fluctuations in the level of the Council Tax.
- To ensure the early recognition of emerging issues associated with assessment of risk and appropriate management of the budget process in relation to the assessment of the degree of risk.
- To direct available financial resources in line with approved service priorities and reallocate from low/nil priority areas in line with Council Policy to maximise achievement of approved Key Commitments.
- For the years in which increases in Council Tax are proposed, the Council should aim to keep to a maximum increase of just below 2% to avoid the risk of triggering a referendum.
- Maximise external income generation opportunities.
- To adopt new/innovative service delivery options to facilitate a more commercial approach and economic regeneration, utilising capital investment where this is shown to be viable in the relevant business case proposals. This includes the Cabinet Proposals for loans to third parties and a capital portfolio fund.

11. BUDGET CONSULTATION STRATEGY

11.1 Following the presentation of this year's Financial Strategy, to Cabinet in December 2016 there will be external and internal consultation through an online questionnaire on the Council's website and specific distribution to interested parties, including staff and unions, Parish and Town Councils and partners such as Community Housing Group and other housing associations.

12. POWERS TO LIMIT EXCESSIVE INCREASE IN COUNCIL TAX AND REFERENDUMS

12.1 The Localism Act abolished the ability for central government to cap the level of Council Tax increase that a local authority can charge. However, to replace these powers government have introduced a 'local tax lock'.

12.2 These powers allow local people a vote to stop council tax going up if their local authority increases Council Tax by more than an amount specified by

government. For this report it has been assumed that any council tax increases in 2018-19 above 2% would trigger a referendum. In 2016-17 the Government allowed all district councils to increase council tax by the greater of 2% or £5 (which represents 2.43% in Wyre Forest), and the Government has also confirmed the same criteria for 2017-18. If the local electorate votes against that increase, the local authority will have to revert to a council tax level that is compliant. The Government has not confirmed whether the option of increases up to £5 will be available in future years and the Strategy therefore assumes that the Council must keep our increases to just below 2%.

13. EQUALITY IMPACT NEEDS ASSESSMENT (EIA)

- 13.1 Where the Cabinet Proposals represent significant changes to service delivery, an EIA on the protected groups has been undertaken.

14. BUDGET RISK MANAGEMENT

- 14.1 Achieving ongoing financial sustainability is the most significant risk facing the Council. The work done by the Cabinet Financial Strategic Advisory Panel provided a range of recommendations for the Cabinet to consider in making its recommendations on the Medium Term Financial Strategy.
- 14.2 The Accounts and Audit Regulations 2015 require Local Authorities to fully consider and manage Risk as part of the Budget process. Attached at Appendix 5 is an analysis of the significant financial risks which are affecting the Council.
- 14.3 All local authorities are required to formalise their approach to risk management and evidence it more directly as part of the budgetary process. This requirement has arisen as a result of:-

- a. *Regulation 3 of the Accounts and Audit Regulations 2015 state that:*
“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.”

In addition Regulation 4 of the Accounts and Audit Regulations 2015 also state that:

“The financial control systems determined must include measures to ensure that risk is appropriately managed”.

- b. *Prudential Framework:-*
The assessment of affordability of financial plans requires a judgement about risk. Prudential Indicators are the monitoring tool to assess performance and risk.
- c. *CIPFA Guidance on Reserves and Balances:-*
Highlights the need to consider risks facing the authority; the risks posed by the continuing austerity measures place pressure on the Council to hold higher levels of reserves to ensure ongoing sustainability.

14.4 The base budget makes no allowance for headroom for additional investment in priorities. In summary, other pressures not yet known and/or not taken into account at this stage are:

- Redundancy costs of further staffing reductions.
- Any additional reductions in other government grants or impact of significant changes to the Business Rates Retention system.
- **Any further impact of the reform to New Homes Bonus**
- Potential nationalisation of land charge searches by 2023. Might affect some of our current income stream of £35k pa.
- Future impact of welfare reforms including rising number of pensioners.
- Pressure to hold higher reserves because of higher risks/decreased funding.
- Any unknown implications of the decision to leave the European Union and the result of the US Presidential elections.

15. LOCAL GOVERNMENT ACT 2003

- 15.1 Local Government Act 2003 (Sections 25-29) places duties on Local Authorities on how they set and monitor budgets.
- 15.2 Sections 25-27 require the Section 151 Officer to report on the robustness of the estimates and the adequacy of its proposed financial reserves. This will be reported to Council on 22nd February 2017.
- 15.3 Section 28 places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the authority must take such action as it concludes necessary. The Council currently reviews the Budget on a quarterly basis, with CLT/Cabinet receiving monthly budget monitoring reports, and this practice will continue.

16. CONSULTEES

- 16.1 Corporate Leadership Team
- 16.2 Cabinet

17. BACKGROUND PAPERS

- 17.1 Accounts and Audit Regulations 2015
- 17.2 Cabinet Report on the Fees and Charges 2016-17 onwards
- 17.3 Agendas and Minutes of the Cabinet Financial Strategy Advisory Panel

WYRE FOREST DISTRICT COUNCIL**REVENUE BUDGET TOTAL REQUIREMENTS - DISTRICT COUNCIL PURPOSES**

SERVICE	2016/17		2017/18			2018/19			2019/20		
	Original Estimate £	Revised Estimate £	At Nov.16 Prices £	Inflation £	TOTAL £	At Nov.16 Prices £	Inflation £	TOTAL £	At Nov.16 Prices £	Inflation £	TOTAL £
CHIEF EXECUTIVE	5,781,210	5,944,620	5,907,240	38,510	5,945,750	5,465,600	100,660	5,566,260	5,345,000	164,300	5,509,300
COMMUNITY WELL-BEING AND ENVIRONMENT	5,238,130	5,009,580	4,668,060	63,650	4,731,710	4,728,860	143,720	4,872,580	4,737,910	226,630	4,964,540
ECONOMIC PROSPERITY AND PLACE	2,532,520	2,717,220	2,335,670	19,790	2,355,460	2,291,150	49,180	2,340,330	2,222,760	84,990	2,307,750
LESS: CAPITAL ACCOUNT	13,551,860	13,671,420	12,910,970	121,950	13,032,920	12,485,610	293,560	12,779,170	12,305,670	475,920	12,781,590
INTEREST RECEIVED	(578,970)	(896,800)	(516,390)	380	(516,010)	(337,620)	1,040	(336,580)	(250,900)	1,680	(249,220)
INCREASES IN FEES AND CHARGES	(113,660)	(93,480)	(42,430)	0	(42,430)	(38,420)	0	(38,420)	(78,420)	0	(78,420)
	0	0	(110,200)	0	(110,200)	(261,050)	0	(261,050)	(412,000)	0	(412,000)
TOTAL NET EXPENDITURE ON SERVICES	12,859,230	12,681,140	12,241,950	122,330	12,364,280	11,848,520	294,600	12,143,120	11,564,350	477,600	12,041,950
LESS: REVENUE SUPPORT GRANT	(1,179,060)	(1,179,060)			(510,220)			(100,680)			356,790
BUSINESS RATES	(2,602,060)	(2,602,060)			(2,653,230)			(2,731,510)			(2,818,810)
BUSINESS RATES GROWTH	(85,000)	(100,000)			(120,000)			(150,000)			(150,000)
COMMUNITY RIGHT TO BID/CHALLENGE	0	0			0			0			0
COLLECTION FUND SURPLUS	(90,000)	(90,000)			(90,000)			(90,000)			(90,000)
NEW HOMES BONUS	(2,350,460)	(2,350,460)			(1,885,760)			(1,285,490)			(1,039,500)
TRANSITION GRANT	(43,230)	(43,230)			(43,080)			0			0
GENERAL EXPENSES -											
COUNCIL TAX INCOME	(6,720,820)	(6,720,820)			(6,783,860)			(6,978,140)			(7,177,500)
(SURPLUS) / DEFICIT FOR YEAR	(211,400)	(404,490)			278,130			807,300			1,122,930
COUNCIL TAX LEVY		205.36			205.36			209.34			213.40
COUNCIL TAX BASE		32,727			33,034			33,334			33,634

WYRE FOREST DISTRICT COUNCIL
CABINET PROPOSALS 2017/18 ONWARDS

Cost Centre	ACTIVITY AND DESCRIPTION OF CABINET PROPOSAL	KEY	2017/18 £	2018/19 £	2019/20 £	After 2019/20 £
			£	£	£	£
SUCCESSFUL LOCAL ECONOMY						
R705	<u>Economic Regeneration Activities</u> Approval of £10m capital funding for loans to third parties to help deliver our regeneration and economic development objectives in terms of both housing and commercial regeneration in accordance with our corporate plan priority "to support you to contribute to a successful economy". Appendix 3/1 sets out more detail.	C R S	10,000,000 - -	- 25,000 CR -	- 35,000 CR -	- 45,000 CR -
R705	<u>Capital Portfolio Fund</u> Approval of £25m capital funding to grow our portfolio of capital assets, existing or new build. Each proposal would be subject to detailed business case approval and must support economic, regeneration and/or housing corporate priorities in addition to producing a net revenue income stream taking into account funding costs. Appendix 3/2 sets out more detail.	C R S	25,000,000 100,000 -	- 50,000 CR -	- 75,000 CR -	- 100,000 CR -
R225	<u>Green Street Depot Investment</u> Approval of the first phase of capital investment into the depot site to ensure ongoing service sustainability and improve the commercial offer from this key site. There may be a further proposal for a second phase of improvement but this would be subject to separate approval by Cabinet and Council. Appendix 3/3 sets out more detail.	C R S	1,100,000 33,350 -	- 66,700 -	- 66,700 -	- 66,700 -
CLEAN, GREEN AND SAFE COMMUNITIES						
R335	<u>Localism Fund</u> To top up the single Localism Fund to £50k to continue the good work done so far with Parish and Town Councils and other local organisations.	C R S	- 50,000 -	- - -	- - -	- - -
R160	<u>Brinton Park HLF Bid</u> To provide funding to support a bid of up to £3m Heritage Lottery Funding for improvement works to Brinton Park. This is in addition to the £100k Section 106 funding already allocated. Appendix 3/4 sets out more detail.	C R S	100,000 3,650 -	- 7,300 -	- 7,300 -	- 7,300 -
R160	<u>Stourport Riverside Master Plan</u> To provide funding for the production of a Master Plan for the potential development of Stourport Riverside.	C R S	- 25,000 -	- - -	- - -	- - -
R720	<u>Community Leadership Fund</u> In light of the acknowledged effectiveness of this fund to retain this funding stream of £1,000 per Member for 2017/18.	C R S	- 33,000 -	- - -	- - -	- - -
R726	<u>Wyre Forest Forward</u> Further target savings from the Wyre Forest Forward Efficiency Programme	C R S	100,000 CR 145,000 -	150,000 CR - -	200,000 CR - -	200,000 CR - -
	TOTALS	C R S	36,200,000 145,000 -	- 151,000 CR -	- 236,000 CR -	- 271,000 CR -

KEY - Changes in Resources

- C Capital
- R Revenue
- S Staffing - Stated in FTEs

EFFICIENCY PLAN

WYRE FOREST FORWARD – OUR EFFICIENCY PLAN 2017-20

This is Wyre Forest District Council's efficiency plan for 2017-20. It is called "Wyre Forest Forward", the transformation programme that we have been running since 2012.

Wyre Forest Forward is a review of all aspects of the Council. It is not just about saving money. It's a comprehensive programme of transformation and includes changing our ways of working and culture. The review will help us to deliver our [Corporate Plan 2014 - 2019](#). The Corporate Plan has two priorities:

- o **Support you to contribute to a successful local economy.**
- o **Support you to live in clean, green and safe communities.**

How we are changing

The Council has been, and continues to be, under severe financial pressure. This has made us look even harder at the value of what we do and how we do it. We therefore apply an approach called Systems Thinking to improve services by focusing on delivering exactly what the customer wants and at the first point of contact.

Our purposes

Everything we do is linked to our [purposes](#) which support the delivery of our Corporate Plan and our customers are at the heart of this. We want to improve community well-being and economic prosperity, but we have fewer resources. We will therefore work with others, including community groups, to fulfil our purposes and move forward.

Wyre Forest Forward in action

We are actively applying Systems Thinking across the Council. We're looking at everything we do and considering how we go forward in a more focused and efficient way. Our employees are engaged in this process at every level.

The Council has an excellent track record in delivering savings, with well over £5m achieved from 2010 to 2016.

The Council's approach to aligning its expenditure with income over time has successfully used three main levers:

- a) **Making the Council as efficient as it can be** in its structures and external and internal processes. This is driven through the Wyre Forest Forward transformation programme, supported by work to ensure that services are on line and "digital by default" and by the ICT strategy;

b) **Implementing alternative delivery structures** where this represents best value. Examples include the shared services that have been implemented since 2010 and the Council's strong track record in localism, transferring responsibility for assets and services to local organisations, including town and parish councils;

c) **Growing its income.** For example, total external income generated has increased by circa £785kpa since 2013-14, including over £215k a year of income generated from tenancies and ICT support charges at Wyre Forest House. Another innovative example is the Evergreen Fund initiative, which was approved in July 2014. It will provide a sustainable source of funding for future investments in projects that produce a revenue return.

The future

We will **continue to use these three levers of efficiency, alternative delivery structures and growing income.** The targets to deliver efficiency savings under Wyre Forest Forward are as follows:

	2017-18	2018-19	2019-20
Targets: minimum Wyre Forest Forward savings	£180k	£786k	£996k

There will be opportunities for more shared services in the future, and we will actively seek opportunities for Wyre Forest District Council to host them in line with our strengths. There is not a dogmatic approach that seeks externalisation or shared services, as was seen with the decision to bring the HR function in house from April 2016 when the former service level agreement with the County Council ended. In-sourcing is something that is actively considered when making business decisions.

The Council has so far chosen not to join the West Midlands Combined Authority as a non-constituent member. The devolution deal for the West Midlands announced in November 2016 included some elements that might be relevant to the footprint of three local enterprise partnerships, which would therefore include North Worcestershire. This may have an impact on economic development and regeneration or other aspects relevant to this efficiency plan.

Devolution proposals for Worcestershire accompanied by a public services leaders' board were submitted to Government in spring 2016. While Government Ministers did not consider they could endorse these proposals they did very much favoured some of the proposals for public service reform that could contribute to this efficiency plan. Examples including:

- a pioneering service delivery model focused around a single vehicle comprised of resource from multiple organisations, working to coordinate the public sector approach to moving individuals and families from dependency to independence. The pilot went live in Redditch in January 2016 with the expectation of roll out across the county in 2017;

The Council has taken positive steps to empower parish councils and local groups to deliver more services. The Council will continue to support this local devolution to increase the pace of change to help preserve services, including the excellent opportunities for joint working following creation of Kidderminster Town Council from April 2016.

There is an increased impetus for growing the Council's income:

- a) growing business rates income in line with government forecasts so the local economy can benefit from the funding we are able to retain under the changing regime;
- b) growing council tax income by supporting housing growth, including through the review of the local development plan;
- c) increasing fees and charges where possible ahead of inflation. This ensures that users of services contribute more to support those services than council tax payers as a whole;
- d) continuing the Council's commercial income from a variety of sources such as ticket sales and events, rents, work undertaken for other organisations and private households, advertising and sponsorship.
- e) to go further with steps to grow both the local economy in terms of regeneration and housing and revenue income streams by use of prudential borrowing powers to deliver the new proposals for loans to third parties and capital portfolio fund as set out in the new council policy framework with due regard to robust due diligence.

Next steps

Under this efficiency plan, the Council will continue on the trajectory towards becoming a much leaner organisation. This will require bold and far-reaching decisions by the Council in the coming period including changes that are likely to be challenging for the public and councillors alike.

Given that these changes need to be implemented before April 2019, the council has two years in which to agree a programme of reform and implement it. In order to ensure that there can be confidence about the Council's financial viability in 2019-20, the Cabinet will take relevant decisions no later than the end of 2017 on changes within its remit, while any that require full Council approval will feature in the Financial Strategy prepared in the latter part of 2017 for 2018-2021.