BUDGET STRATEGY 2017/18

APPENDICES 1 - 10

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Ealing Council

February 2017

Medium Term Financial Strategy

2017/18 – 2020/21

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EALING COUNCIL
MEDIUM-TERM FINANCIAL STRATEGY (MTFS)
2017/18 – 2020/21

1. BACKGROUND

In February 2016 the council agreed the medium term financial strategy based on the objectives of the Corporate Plan, the latest resource projections and estimates of expenditure. This document refreshes and updates the council's strategy.

The MTFS flows from the council's Corporate Plan 2014 - 2018 and sets out how it will ensure a stable and sustainable financial position to allow the Council to achieve its strategic objectives. The MTFS also takes into account the significant on-going funding reductions confirmed in the local government financial settlement for 2017/18 published December 2016.

The strategy highlights that the council will continue to face ongoing reductions in funding over the medium to longer term given the current position on public finances.

In the face of one of the most challenging financial periods ever faced by local government, the councils financial standing is sound and it has responded well to the pressures it faces. The council again spent within its budget for 2015/16 with a very modest increase in the general fund balance at year-end and is undertaking management actions to control overspends and deliver a balanced outturn in 2016/17 providing a strong base for the council to face the challenges in 2017/18 and beyond. The most recent Statement of Accounts, for 2015/16, received an unqualified external audit opinion.

Despite these achievements, the MTFS is being produced at what continues to be a challenging time for all authorities, there is little room for maneuver on finances and continuous delivery of savings is required to maintain financial stability.

Council Priorities

At a time when household budgets continue to be under pressure Ealing remains committed to keeping council tax at an affordable level. The Administration has indicated it wishes to maintain council tax as low as possible for 2017/18, noting the advice of the Executive Director of Corporate Resources, as Section 151 officer, that the council will have to find additional savings in future years to be able to deliver a balanced budget.

Delivering the Administration's Manifesto

The budget process is designed to ensure that it is priority-led so that resources are aligned with the priorities of the Administration. The top 6 priorities of the Administration are based on what residents and service users have consistently said that they want prioritised. These are to make Ealing:

- A prosperous borough
- A safer borough
- A healthier borough
- A cleaner borough
- A fairer borough
- An accessible borough

The budget process for 2017/18 has been prepared in line with the Administration's budget setting principles. These are as follows:

The council must set a balanced budget, we must act responsibly with local people's money. We will focus the money the council spends on delivering our principles. They are:

- Making every effort to protect those at risk in our borough including elderly, disabled, children and young people who use our services.
- Building residents' resilience and social capital through acting as an enabling council.
- Intervening in problems as early as possible to deliver the best results for residents.
- Seeking solutions that make use of local people's knowledge, enthusiasm and commitment to the borough.
- Seeking to maximise employment and economic growth in the borough by being an exemplary employer and by encouraging local business growth.
- Making our services and those we commission world class and focused on what matters to local people.

Whilst implementing these principles we will see to it that public money is used as efficiently as possible by cutting out waste, using new technologies to make services more efficient and seeking to work collaboratively with all our partners in the public sector and beyond.

2. OBJECTIVES OF THE FINANCIAL STRATEGY

- Prioritise resources to align spending plans with the council's vision and strategic objectives and resident priorities
- Maintain council tax as low as possible
- Maintain a balanced budget position, and to set a medium term financial plan maintaining and strengthening that position
- Provide a robust framework to assist the decision making process
- Undertake a prudent level of capital investment to meet the council's strategic priorities and remain within prudential borrowing limits
- Manage council finances within the context of a forward looking three year rolling business planning framework
- Deliver value for money to local taxpayers
- Exercise probity, prudence and strong financial control
- Manage risk, including holding reserves as appropriate & sustainable levels of debt
- Continually review budgets to ensure resources are targeted on key objectives

The MTFS 2017/18 – 2020/21 contains 10 strategic objectives set by members that underpin the annual budget setting process as set out above.

The financial strategy covers the period 2017-2021 and sets out the resource issues and principles that shape the council budget; it identifies current issues and considers potential developments / related issues that are likely to provide the basis for future revenue and capital budgets. The Housing Revenue Account (HRA) is not included, as a separate revenue budget was agreed by Cabinet on 17 January 2017. The business plan and capital programme will be considered by Cabinet on 14 February 2017.

The council remains in a strong financial position, general fund balances were at the target level of £15.473m (6.2% of net budget) in March 2016 and are forecast to remain at this level as at March 2017. This is despite the council delivering a significant savings programme over the past five years. The target level of £15.473m will remain unchanged over the MTFS due to the current economic volatility and significant uncertainty around local government funding and additional burdens.

The MTFS supports all other council strategies, such as the Asset Management Strategy and the People Strategy. In particular, it acts as a linchpin linking the council's more detailed service plans, asset management plans and capital plans with the longer term to show that the council's plans are financially achievable.

3. NATIONAL CONTEXT – UPDATE ON THE ECONOMY

Ealing's financial and service planning takes place within the context of the national economic and public expenditure plans and the financial strategy has been formulated within the context of the current UK economic position.

The Chancellor of the Exchequer made his Autumn Statement on 23 November 2016. With lower potential output over the next 5 years, the Office for Budget Responsibility (OBR) expects weaker GDP growth than at Budget 2016. The OBR forecasts GDP growth to be 1.4% in 2017, rising to 1.7% in 2018, 2.1% in both 2019 and 2020, and 2.0% in 2021. GDP growth has been revised down by 0.8 percentage points in 2017 and by 0.4 percentage points in 2018, and is unchanged in both 2019 and 2020. GDP growth on a per capita basis has been revised down by the same amount, given the unchanged forecast for population growth.

Table 1 – GDP Growth Forecasts

	2015	2016	2017	2018	2019	2020	2021
Autumn Statement 2016	2.2%	2.1%	1.4%	1.7%	2.1%	2.1%	2.0%
Budget 2016	2.2%	2.0%	2.2%	2.1%	2.1%	2.1%	n/a
Autumn Statement 2015	2.4%	2.5%	2.4%	2.3%	2.3%	2.3%	n/a

The forecast for borrowing has also been revised in the autumn statement and shows borrowing rising to £68.2bn in 2016/17 from a budget of £55.5bn, and then falling to £20.7bn in 2020/21 compared to a budget of a (£11.0bn) surplus.

The UK base rate remains at an historic low of 0.25%, and current indications are that interest rates are unlikely to be increased in the short-term due to slower growth prospects, subdued wage growth coupled with small inflationary pressures.

The target rate for CPI inflation remains at 2% and at November 2016, stood below this level at 1.2%. CPI has been below the target rate since December 2013 when it fell to the target level for the first time since November 2009. CPI inflation is expected to rise to 2% in the first half of 2017 as the influences of past falls in energy and food prices waned.
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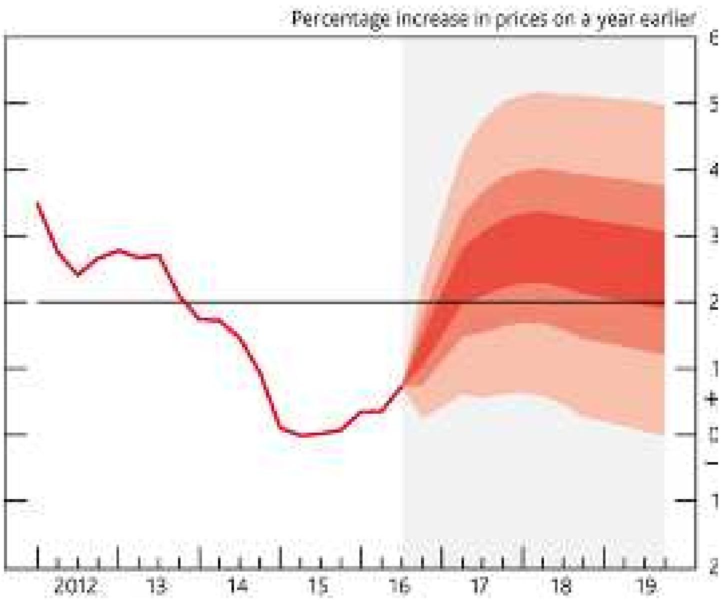
Whilst the current economic outlook continues to improve there remains a great deal of uncertainty and it remains important that the council has a level of reserves that allows it to withstand unanticipated financial impacts of future developments at a local and national level.

The Bank of England’s November 2016 inflation forecast is shown in the following fan chart. This forecast is based on the Monetary Policy Committee’s (MPC) best collective judgment of the outlook for CPI inflation and shows the probability of inflation movements with the darker central part of the fan being the more probable.

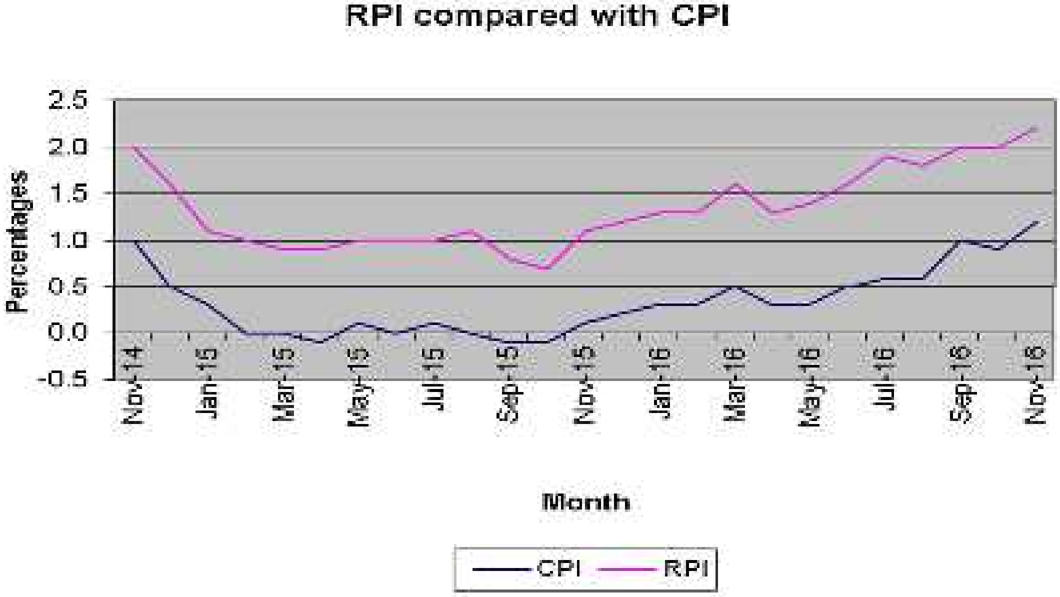
Chart 1 – CPI Inflation forecast as at November 2016



Source: Bank of England

The following graph shows the percentage change over 24-months for inflation both RPI and CPI. The government's target rate for CPI inflation is 2%. CPI inflation is expected to rise to 2% in the first half of 2017 as the influences of past falls in energy and food prices waned.

Chart 2 – RPI and CPI 24-month percentage change



Source Data: Office for NationalStatistics

A key element in the budget preparation process is building in an appropriate central allowance for inflation, whilst noting that it is difficult to forecast exactly how it will vary against the estimates made. Some specific allowances have been built into the budget for prices where contractually required. No other specific allowances have been built into the budget for pay and price inflation. Instead an overall inflation allowance of £4m has been allocated for 2017/18.

4. THE ECONOMY AND THE COUNCIL'S INVESTMENTS

One of the most significant possible on-going impacts of the wider economy for Ealing is in the area of its treasury management investments.

The UK base interest rate, currently stands at 0.25% after being cut by the Monetary Policy Committee (MPC) to counteract the downturn it foresaw the Brexit decision might have on the UK economy. UK interest rates underpins investment returns and is not expected to start increasing again until December 2019. However because this position is data dependent increases could come earlier or later than anticipated if inflation expectations or wage increases change. In this regards short term returns are expected to remain low during 2017/18. The council can place investments for up to two years with local authorities, picking up some higher yields on longer term investments, but these are still low relative to historical rates.

There are still significant imbalances in global financial markets and counterparty risk remains high. This therefore requires the council to continue to monitor and restrict lending to much higher quality counterparties over shorterduration.

The council continues to regard security of the principal sum it invests as the key objective of its treasury management activities on investments. The council continues to minimise risks, with the rate of return on the investments remaining lower as a result. The separate and detailed annual Treasury Management Strategy document presented to members for approval as part of the budget setting process goes into this in greater detail.

5. OTHER IMPLICATIONS OF THE NATIONAL ECONOMIC SITUATION

The other potential implications for Ealing of the wider economic situation include:

- The council may find it harder to collect sums due to it, for example for council tax and business rates. Despite the increased pressures, to date the performance on income collection has been strong.
- The council will face increased demand for its services to assist residents falling into hardship.
- Government funding is tighter with public spending reduced even further than forecast.
- The council may find its suppliers and contractors at risk of liquidation, potentially affecting delivery of services.
- Inflation pressures may be greater than assumed.

6. FUNDING FROM GOVERNMENT Business Rates Retention

The Business Rates Retention scheme was implemented from April 2013. Under the scheme until 31 March 2017 Ealing retains 30% of all business rates collected in the borough, 20% goes to the Greater London Authority and 50% goes to the government. The government has announced there will be increased local retention to be delivered by 2020 – the first part of the change will occur from 1 April 2017 with an increased share being retained by GLA. Ealing will still retain 30% with 37% (up from 20%) being paid to GLA and Central government now getting 33% (down from 50%). Further details on wider retention are expected in the next year.

The 2013/14 Local Government Finance Settlement was the first under this scheme and provided each local authority with a starting position (funding baseline) under the business rates retention scheme. This included the following calculations, which were to be fixed until the planned reset of the system in 2020, but now will be reviewed as part of the move to full business rates retention planned for 2020 and have been adjusted for the 2017 business rates revaluation.

- Individual authority Settlement Funding Assessment;
- Baseline funding level;
- Individual authority business rates baseline;
- Tariffs and top-ups (uprated annually by RPI) and
- Safety net guaranteed funding level.

Where a council's individual business rates baseline is less than their baseline funding (like Ealing), they receive a top up payment to ensure they are not unfairly penalised.

Ealing's funding received via the business rates retention system is comprised of Revenue Support Grant and business rates, as outlined in the table below (figures are taken from the provisional Local Government Finance Settlement for 2017/18). We will also receive a top- up to our funding baseline, which will be index-linked to RPI in future years.

	2017/18 £m
Revenue Support Grant	35.007
Business Rates – Individual Authority Baseline	42.511
Business Rates – Top-Up	29.495
Settlement Funding Assessment (SFA)	**107.013**

A safety net is available and Ealing's element of the business rates would need to fall by more than £5.401m below our baseline of £72.006m in order for the safety net to be activated.

7. COUNCIL TAX POLICY

The budget for 2017/18 has been constructed around the administration's wish to maintain council tax as low as possible. In recognition of the continuing social care pressures, then acceptance of the 2% social care precept flexibility in 2017/18 has been factored in.

The council's approach is to deliver an affordable but prudent and realistic level of council tax over the period of the MTFS. The council needs to ensure that it has adequate resources to meet its statutory and mandatory obligations and its priorities.

The proposed local Band D council tax (excluding the GLA precept) for 2017/18 is **£1,081.13,** meaning that although underlying council tax levels in Ealing will have not changed since 2008/09, council tax payable will increase by £21.20 (2%) for the social care precept. The council will continue to work to ensure the right balance of council tax and spend is achieved throughout the MTFS period, in accordance with its business and financial planning framework and process and in the context of the council's overall strategic priorities.

The advice of the Executive Director of Corporate Resources as Section 151 officer is that there are funding risks in freezing council tax and not using the social care precept flexibility to levy an additional 2% on council tax to fund social care in 2017/18 as proposed. Whilst noting that there are difficult economic conditions and financial pressures upon many in the community, if council tax continued to be frozen, it would potentially create additional pressure on future years' budgets due to the effects of inflation and increasing demand for services, particularly social care.

Social Care Precept

The Local Government Finance Settlement made an allowance for local authorities to increase the social care precept up to 3% in 2017/18 and 2018/19, but total increases cannot exceed 6% over the three years to 2019/20. From 2017/18 councils have the flexibility to raise council tax by an additional 3% in respect of a social care precept that is ring-fenced for social care.

8. DELIVERING THE COUNCIL'S PRIORITIES

The role of the council's financial planning process is to support the achievement of the council's strategic goals, Corporate Plan and Community Strategy.

The council has six priorities that respond to residents' concerns and to ensure the delivery of high quality and cost effective services.

- A prosperous borough
- A safer borough
- A healthier borough
- A fairer borough
- An accessible borough

Over the last eight years the council has successfully delivered low council tax levels (significantly below both the national and outer London average) and high quality services.

Link to corporate plan
https://www.ealing.gov.uk/info/201072/strategies_plans_and_policies/300/corporate_plan

This MTFS contains the most up to date information at the time of drafting but the council's financial position is dynamic. The council faces a number of financial uncertainties that could affect the council's financial position over the medium term, including:-

- Central government policies, including legislative change, which may require additional expenditure in areas that would not otherwise be council priorities.
- Changes in interest rates.
- The impact of market forces on costs, particularly with regard to major contracts and the local employment market.
- The raising of community expectations, leading to additional demand for services or improved services.
- The growth in population, leading to additional demand for services.

9. BUDGET REVIEW PROCESSS

The council continues to use a rigorous priority led budget review process, which helps to assess service budget proposals and bids for growth against the council's vision and priorities. Departmental budget options are reviewed each year at a series of confidential officer budget review meetings in the autumn. These budget meetings are challenge sessions on the direction of travel of service divisions, in terms of finance and performance. Service ideas and proposals are presented by the relevant executive director and service directors with the relevant portfolio holders also in attendance. These meetings do not constitute formal decision-making bodies. The objectives of the review process are as follows:

- To provide directorates with an opportunity to submit proposals for growth and savings compared to the current business plan for the period.
- To provide a mechanism for challenging departments' proposals and how they meet corporate priorities in a robust and constructive fashion
- To measure these proposals against the prevailing financial situation including the Budget Gap.
- The outcome of the process is a set of business plan options put forward for consideration by the Cabinet, Overview & Scrutiny committee and final consideration by full Council at its budget-setting meeting in February.

10. COUNCIL'S BUSINESS AND FINANCIAL PLANNING TIMETABLE

Date	Activity
April	• Commence work on strategic budget and service planning.
July	• Budget strategy and process reported to Cabinet
Nov	• Cabinet review budget options • Cabinet receives preliminary budget proposals including savings
Dec	• Local Government Provisional Financial Settlement
Feb	• Budget Strategy report to Overview & Scrutiny Committee • Consultation with Ealing Business Partnership • Cabinet reviews proposed budget and recommends to Full Council. • Local Government Final Financial Settlement • **FULL COUNCIL APPROVES THE BUDGET AND COUNCIL TAX**

11. FORECAST SPENDING LEVELS – THE MEDIUM TERM FINANCIAL MODEL

The financial implications of the MTFS are set out in this section, which summarises the revenue budget projections over the medium term. Ealing faces a period of funding restraint and in the MTFS model the council, like other councils, is forecasting on this basis. The model provides the latest indication of the council's financial position for 2017/18 to 2020/21.

The council reported a modest underspend of £0.010m in 2015/16 and the latest forecasts for the 2016/17 revenue budget reported to Cabinet on 17 January 2017 as at quarter three indicates that spending will again be within the agreed budget despite pressures within Adults and Children's Social Care after the approved use of corporate reserves and in-year management mitigation actions. Work is ongoing to seek to reduce these pressures and recovery plans monitored monthly to ensure a balance position by year end. As previously reported to Cabinet, this position includes drawing down from the £3m centrally held contingency budget.

The MTFS is intended to set out a sustainable and affordable financial plan that addresses the council's priorities over the next four years. It should provide for realistic levels of spending, not dependent upon the use of one-off reserves. It should provide for a prudent level of reserves for contingencies.

The settlement set out the funding allocation for the council for 2017/18. It is the view within local government finance, based on government announcements to date, that overall local government funding is likely to continue to fall over the medium term. An estimate of funding for 2018/19 to 2020/21 has been included in this MTFS.

The overall net budget proposed for 2017/18 is £239.190m which can be funded through the Revenue Support Grant and business rates of £111.413m, council tax income (based on a 2% increase for the social care precept) of £120.148m and the collection fund surplus of £7.629m. A summary of the proposed budget is set out in Annex 1.

Looking forward over the MTFS period a variety of planning scenarios are of course possible and for the purposes of this document, three indicative scenarios are set out below. Where these include council tax increases, these increases have been set at 2% and 3.99%, which is within the government's 5% council tax cap for 2017/18 (3% of which can only be raised in respect of the social care precept flexibility), above which a local referendum would be required:

Scenario 1 Key assumptions are as follows: (Exemplified details in **Annex 1)**

- Funding decrease as per the provisional Local Government Finance Settlement 2017/18 which includes indicative figures to 2019/20.
- Contingency £3m
- General fund balance maintained at £15.473m per annum
- Council tax social care precept increase of 2% in 2017/18 and a freeze in future years.
- NDR income based on revenues' forecasts.
- Budget Gap are adjusted over the MTFS where impacted
- Planned transfers from reserves in 2017/18 are adjusted where impacted and no transfers to/ from reserves are planned in 2018/19 onwards.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Net Spend	239.190	252.556	230.097	226.823
RSG/Business Rates	(111.413)	(104.785)	(97.776)	(89.776)
Council Tax	**(120.148)**	**(121.350)**	**(122.564)**	**(123.790)**
Collection Fund	(7.629)	-	-	-
Budget Gap	**-**	**(26.421)**	**(9.757)**	**(13.258)**
Closing Balance	15.473	15.473	15.473	15.473
Council Tax Increase (excl. GLA)	**2.00%**	**0.00%**	**0.00%**	**0.00%**

Scenario 2 Council tax increased by 2% for the social care precept to 2019/20.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Net Spend	239.190	252.556	232.524	231.775
RSG/Business Rates	(111.413)	(104.785)	(97.776)	(89.776)
Council Tax	**(120.148)**	**(123.777)**	**(127.515)**	**(128.790)**
Collection Fund	(7.629)	-	-	-
Budget Gap	**-**	**(23.994)**	**(7.233)**	**(13.209)**
Closing Balance	15.473	15.473	15.473	15.473
Council Tax Increase (excl. GLA)	**2.00%**	**2.00%**	**2.00%**	**0.00%**

Scenario 3 Council tax increased by 3.99% including the 2% social care precept to 2019/20, and increased by 1.99% in 2020/21.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Net Spend	241.534	252.556	237.401	239.385
RSG/Business Rates	(111.413)	(104.785)	(97.776)	(89.776)
Council Tax	**(122.492)**	**(128.654)**	**(135.125)**	**(139.192)**
Collection Fund	(7.629)	-	-	-
Budget Gap	**-**	**(19.117)**	**(4.500)**	**(10.417)**
Closing Balance	15.473	15.473	15.473	15.473
Council Tax Increase (excl. GLA)	**3.99%**	**3.99%**	**3.99%**	**1.99%**

12. SENSITIVITY ANALYSIS

A small change in key underlying assumptions can produce a significant change in the budget. The key sensitivities are outlined below:

Sensitivity	Change	Approximate annual impact £m
Business rates income	1.00%	0.469*
Pay award	0.25%	0.250
Interest rates	0.25%	0.500

*Council receives 30% of growth under the current funding system.

For each budget adjustment of £1m, the impact on council tax is some £9.00 on Band D council tax or 0.85%. In terms of council tax sensitivity, for every 1% increase in the 2017/18 council tax additional £1.178m council tax revenue is raised and therefore for every 1% variation, a budget variation of £1.178m would be required.

Allowances in the budget model

Within the budget model is an annual allowance for inflation of £4m which takes into account the following:

(i) **General inflation** – The inflation allowance is primarily needed to cover general inflation. The general assumption is that services should first seek to cover inflation from their existing budgets, unless the council is tied contractually to increases that require additional funding. Contractual inflation is included within specific budget proposals where necessary.

(ii) **Pay inflation** – Local Government Association has negotiated a pay award for two years of 1% per annum for the period 1 April 2016 to March 2018. This will be met from the Inflation budget as part of the MTFS. A 1% pay award broadly equates to an increase in costs of £1m.

Employer Pension Contribution

The latest actuarial review of the pension fund was as at 31 March 2016, the outcome has been profiled into the budget for the next three years commencing 2017/18. The next actuarial review will be at 31 March 2019.

13. CAPITAL PROGRAMME

The Capital Strategy (updated in February each year and set out in its own separate document for approval by members) sets out a clear framework for funding and investment decisions in respect of capital assets, in the context of the council's vision and priorities and its financial resources. All new projects are assessed in terms of their contribution to the Corporate Plan objectives and their priority in terms of scarce resources.

The council reviews its capital spending plans each year and sets a Capital Programme. Revenue expenditure is concerned with the day-to-day running of services and capital expenditure is a key element in the development of the council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme have an impact on the revenue budget, for example, in relation to:

- The revenue costs of financing capital, including prudential borrowing;
- The ongoing running costs and upkeep of new assets such as buildings.

The council's revenue and capital budgets are integrated with the financial impact of the proposed capital programme, which is reflected in the revenue estimates.

The council will only invest as long as its capital spending plans are **affordable, prudent and sustainable**. The key constraint on capital investment by the council is the scope to afford the financial implications in terms of acceptable council tax levels and, in the case of the housing revenue account, acceptable rent levels.

14. VALUE FOR MONEY

The council assesses and challenges the value for money provided by each service through the annual budget setting process. The council's budget review process guidance for 2017/18 required that, in seeking to deliver a balanced budget, Cabinet members would seek to identify efficiencies and savings that would not adversely impact on service delivery and identify options to improve value for money through improving performance and/or reducing service costs.

15. RISK MANAGEMENT

The current funding settlement only provides certainty for 2017/18, beyond this there remains a great deal of uncertainty. The MTFS therefore includes various assumptions on future funding which is based on government announcements made to date.

The MTFS model will continue to be updated as greater clarity is provided by the government on their medium term funding plans.

Given the uncertainties of the economic environment and the anticipated scale of the expenditure reductions required, there are inevitably significant risks involved in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to Audit Committee and the Annual Budget setting report contains a detailed review of the risks to the MTFS.

Since 2013/14, the balancing of the budget in-year depends upon the council achieving its business rates projections. Business rates income continues to be closely monitored by the Financial Strategy Group.

The area of highest risk is represented by the continuing need to deliver significant cuts and efficiencies over the next four years. Robust and detailed plans will be required at an operational level to ensure that this risk is mitigated and savings are duly delivered. The risks on delivery of savings of the magnitude required will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans being required to find compensating savings for any overspendings identified.

The council is faced with an uncertain financial climate over the medium to long term which presents a high risk to the authority and there remains potential for further, as yet unrecognised, risks. For this reason, a prudent approach to the level of reserves held by the council remains sensible and necessary. The Executive Director of Corporate Resources, as the council's Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget setting process.

As with any plan spanning a number of years it is prudent to consider all associated risks. The council, in common with most local authorities, continues to be at risk from many financial pressures. They include:

- Inflation differing from assumptions – directorates will be required to absorb inflation to help contribute to future years' budget gap
- Growth pressures for example due to changing demographics – growth will only be

provided for uncontrollable pressures
- Interest rates – variations due to economic factors
- Changes in legislation affecting the costs of carrying out services
- Reduction in fees & charges income
- Reduction in collection rate of debt
- Requirement to increase use of prudential borrowing to fund capital spend
- Any adverse claims experience increasing insurance premiums
- Service demands exceeding resources available
- Additional reductions in government funding beyond those already assumed in the MTFS.

16. GENERAL FUND BALANCE

As well as holding specific earmarked reserves, the council holds the general fund balance to cushion the impact of any unexpected events/emergencies. The forecast on the balance over the period of the MTFS is shown as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Brought Forward	(15.473)	(15.473)	(15.473)	(15.473)
Contribution to/from General Fund	-	-	-	-
Carried Forward	(15.473)	(15.473)	(15.473)	(15.473)

The Executive Director of Corporate Resources reviews the level of the balance annually in relation to the overall financial position of the council and the CIPFA guidance on Local Authority Reserves and Balances 2003 does not recommend any % level. **The advice of the Executive Director of Corporate Resources as Section 151 officer is that the working balance of £15.473m is considered the minimum level required as at 31 March 2017**. This represents 6.5% of the net budget for 2017/18.

For 2017/18, as in 2016/17, the council does not plan to use any of the general fund balance to support the budget. Using the balance to avoid making budget reductions would have the effect of delaying the requirement to deliver sustainable savings.

There is an opportunity cost of holding a balance of £15.473m in terms of investing in services or limiting the council tax and this is offset by the flexibility that it allows the council to deal with risk and adverse expenditure variations. Each £1m drawing on reserves would reduce Band D council tax by some £9.00 or 0.85%.

17. CONTINGENCY

The council needs to hold an adequate level of central contingency in the base budget as well as appropriate levels of reserves and balances. Each year when assessing the level of contingency the following are examples of the factors that are considered: -

- Budget risks (e.g. delivery of savings of almost £30m over the MTFS period)
- Financial risks arising from the recent welfare reform changes
- Inflationary pressures
- Demographic pressures
- In year budget pressures on volatile and demand led budgets (e.g. social services placements)
- Unexpected events

- Current economic climate
- New burdens

The contingency figure presented in the draft budget is £3m for 2017/18, which is the same level as for 2016/17.

For 2017/18 there has been no automatic inflationary increase of budgets except where directorates have concluded that they are unable to contain specific inflationary pressures (e.g. on a number of our contracts where services are tied into specific contractual arrangements) and have submitted growth bids.

18. MONITORING AND REVIEW

Cabinet receives regular budget update reports during the year on how the council is progressing against its MTFS. All processes and procedures relating to the monitoring of the budget are set out in the council's Financial Regulations.

The strategy is published on the council's website and communicated to staff and stakeholders, for example, by publishing it on the council's website.

Annex 1 – Summary of Medium Term Financial Strategy assuming 2% council tax (social care precept) increase in 2017/18 and 0% from 2018/19. The MTFS shows a balanced position for 2017/18.

Summary of Medium Term Financial Strategy

Budget Totals	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Expenditure				
Base budget services	165.118	143.880	112.496	102.724
Savings b/f from previous budget process	(20.859)	(4.850)	-	-
Growth b/f from previous budget process	1.140	0.100	-	-
Savings from 2017/18 budget process	(2.935)	(0.238)	(0.014)	-
Growth from 2017/18 budget process	2.259	0.025	-	-
Other adjustments	(0.843)	-	-	-
Budget Gap	-	(26.421)	(9.758)	(13.258)
Total departmental budgets	**143.880**	**112.496**	**102.724**	**89.466**
Below the line items				
Levies	30.786	31.826	32.667	32.667
Inflation	4.000	7.500	11.000	14.500
Improved Better Care Fund	(0.456)	(4.892)	(8.888)	(8.888)
Pensions contribution provision	3.350	3.600	3.850	5.850
New Homes Bonus	(7.388)	(3.304)	(1.658)	(0.994)
Education Services Grant	(1.275)	-	-	-
2017/18 Adult Social Care Support Grant	(1.424)	-	-	-
Adult Social Care growth	13.780	14.380	14.980	14.980
Care Act Funding Growth	1.731	1.731	1.731	1.731
Childrens Budget Review Growth	3.000	3.000	3.000	3.000
Childrens One-off Pressure	2.000	-	-	-
Childrens Social Care Growth	5.354	5.354	5.354	5.354
Temporary Accommodation	0.500	0.500	0.500	0.500
Other Service budget adjustments held centrally	8.204	9.129	9.129	9.129
Central, Council Wide and Investments Budgets	42.291	44.815	45.950	46.270
Transfers to/(from) reserves	(9.143)	-	-	-
Total non-departmental budgets	**95.310**	**113.639**	**117.615**	**124.099**
Net budget requirement	**239.190**	**226.135**	**220.339**	**213.565**
Funding				
Revenue Support Grant & Top-Up Funding	64.503	56.017	47.567	39.567
NNDR (incl. section 31 grant)	46.910	48.768	50.208	50.208
Council Tax	120.148	121.350	122.564	123.790
Collection Fund	7.629	-	-	-
Total Funding	**239.190**	**226.135**	**220.339**	**213.565**

Please note Non Departmental Budgets are shown on a cumulative basis rather than incremental.

GLOSSARY OF TERMS

Actuarial Valuation
An independent report of the financial position of the pension fund carried out by an actuary every three years. The actuary reviews the pension fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the council.

Baseline Funding Level
The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the government. It forms the baseline against which tariffs and top- ups are calculated.

Budget Requirement
The council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding council tax, RSG and business rates).

Capital Expenditure
Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme
The council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

Capping
This is the power under which the government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the government to restrain increases in council tax. The council tax cap, currently at 2% excluding the social care precept, means that any local authority in England wanting to raise council tax by more than 2% on prior years must consult the public in a referendum, councils losing a referendum would have to revert to a lower increase in their bills. From 2016/17 councils have the flexibility to raise council tax by an additional 2% (3% in 2017/18) in respect of a social care precept that is ring-fenced for social care.

CIPFA
The Chartered Institute of Public Finance and Accountancy is one of the UK accountancy institutes. Uniquely, CIPFA specialises in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund
A statutory account maintained by the council recording the amounts collected from council tax and business rates and from which it pays the precepts to the Greater London Authority (GLA) and the Department for Communities and local Government (CLG).

Collection Fund Surplus (or Deficit)
If the council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Ealing's case this is the GLA, in proportion to the respective council taxes. These surpluses or deficits have to be returned to the council taxpayer in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise. The council generally achieves a surplus, which is shared with the GLA. From 2013/14 onwards the collection fund now also includes business rates income. Business rates surplus or deficit is shared with the GLA and CLG.

Contingency
This is money set-aside centrally in the council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base
The council tax base for a council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To calculate this, the council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

The Council Tax Calculation
The formal calculation of Ealing's council tax as presented in the Council Tax Resolution.

CPI and RPI
The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.

Dedicated Schools Grant (DSG)
This is the ring-fenced specific grant that provides most of the government's funding for schools. This is distributed to schools by the council using a formula agreed by the schools forum.

Earmarked Reserves
These balances are not a general resource but earmarked for specific purposes.

Financial Regulations
These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year
The local authority financial year commences on 1 April and finishes on the following 31 March.

General Fund
This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate housing revenue account (HRA).

General Fund Balance
This is the main unallocated reserve of the council that is set aside to meet any unforeseen pressures. Currently this reserve represents around 6% of the non- schools budget.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the overall economy.

Gross Expenditure
The total cost of providing the council's services, before deducting income from government grants, or fees and charges for services.

Housing Revenue Account (HRA)
A separate account of expenditure and income on housing that Ealing must keep. The account is kept ring-fenced from other council activities. The government introduced a new funding regime for social housing within the HRA from April 2012.

Individual Authority Business Rates Baseline
This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Levies
A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Ealing is required to pay levies to a number of bodies such as the West London Waste Authority and the London Pensions Fund Authority.

Local share
This is the percentage share of locally collected business rates that will be retained by local government, currently 50%. The local share of the estimated business rates aggregate is divided between billing authorities on the basis of their proportionate shares. Ealing is required to split the 50% with the GLA, 30%, 20%, respectively. From 2017/18 the local share will increase to 67%, though Ealing’s element will remain unchanged at 30%. The GLA’s share will be 37%.

Net Expenditure
This is gross expenditure less income, but before deduction of government grant.

National Non Domestic Rates (NNDR)
Also known as ‘business rates’, Non Domestic Rates are collected by billing authorities such as Ealing and, up until 31 March 2013 were all paid into a central national pool, then redistributed to authorities according to resident population. From 2013/14 local authorities retain a “Local Share”, see above, the aim of which is to provide an incentive to help businesses set up and grow.

New Homes Bonus
Under this scheme councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant. From 2017/18 the scheme has been amended to no longer provide for the first 0.4% of growth to “sharpen the incentive”.

Better Care Fund
Together with the additional council tax flexibility for social care, the government is providing £1.5bn for authorities to spend on social care by 2019/20 to be included in an improved Better Care Fund. Allocations will commence in 2017/18, with the £1.5bn only fully allocated in 2019/20. This will be a separate grant and the allocation methodology will benefit those councils who benefit less from the additional council tax flexibility for social care.

Precept
The precepting authority’s council tax, which Ealing collects on behalf of the preceptor, the Greater London Authority (GLA).

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the council's capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure
The day-to-day running expenses on services provided by council.

Revenue Support Grant (RSG)
All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

Section 151 Officer
Legally councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Ealing's case this is the post of Executive Director of Corporate Resources.

Settlement Funding Assessment (SFA)
A local authority's share of the local government spending control total which comprises its Revenue Support Grant for the year in question and its baseline funding level (in 2013/14 this was called the start-up funding allocation).

Specific Grants
As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Education.

Spending Review
The Spending Review is an internal government process in which the Treasury negotiates budgets for each government department. The 2015 Spending Review set government spending for the four financial years up to 2019/20.

Tariffs and top-ups
These are calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups were fixed at the start of the scheme in 2013/14 then adjusted in 2017/18 for the 2017 business rates revaluation and will continue to be index linked to inflation in future years. Ealing is a 'top-up' authority.

Treasury Management
The process of managing the council's cash flows, borrowing and cash investments to support Ealing's finances. Details are set out in the Treasury Management Strategy which is approved by Cabinet and Full Council in February each year.

Virement
This is the transfer of budget provision from one budget head to another. A virement must be properly authorised by the appropriate committee (Cabinet) or by officers under delegated powers.