Appendix 17

# MEDIUM TERM FINANCIAL STRATEGY 2014/15 to 2017/18

## February 2014

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# 1 Introduction

## 1.1 Objectives of the MTFS

The Medium Term Financial Strategy (MTFS) is designed to provide an integrated view of the whole of the Council's finances and outlook. It shows how the Council intends to align its financial resources to the aims and priorities of the Corporate Plan and the resulting Service Plans.

The MTFS is the Council's key financial planning document which informs service and resource planning, and shows how spending is balanced with the available funding. It identifies budget gaps in the medium term and allows the Council time to address them in a considered and planned way.

The MTFS takes into account national and local priorities so that it is realistic and reduces the risk of a significant budget gap occurring late in the budget setting process. It includes revenue and capital net expenditure for the General Fund and the Housing Revenue Account, reserves, financing of capital, treasury management and partnerships. This is to ensure that the Council sets a comprehensive but affordable budget.

The parameters set by the four year planning period of the MTFS are used to inform the development of the budgets for the General Fund, Housing Revenue Account and the capital programme for the first year of that planning period. This is to make sure that, in setting that budget, decisions are not taken that would create problems in future years and that the financial consequences of these decisions are sustainable.

The MTFS seeks to encompass the policies set by members in a way that Chief Officers acknowledge is achievable. It does this by forming an integral part of the Corporate Service and Resources Planning Framework.

The MTFS assists with the setting of a robust budget by taking into account the likely effect of identified budget pressures and risks materialising. It allows the modelling of the effect of different planning assumptions on the budget gap which facilitates decision-making that is affordable and realistic.

## 1.2 Limitations of the MTFS

The further the MTFS looks to the future, the more uncertainties there are. The Spending Round 2010 (SR10) was announced in October 2010 and set out the Government's priorities and spending plans for the four financial years from 2011/12 to 2014/15. Spending Round 2013 (SR13) announced in June 2013 sets out the Government's spending plans for 2015/16 only, covering the remainder of the current Parliament. This MTFS therefore covers two spending reviews and goes two years further.

## 1.3 Corporate and financial timetable

The MTFS forms an integral part of the Corporate Service and Resources Planning Framework. The agreed planning cycle resulting from this framework involves Member and Chief Officer engagement and challenge throughout the process and this is set out below:

During the January to March period preceding the start of the financial year, the budget and policy framework for the new year is set through a suite of documents incorporating the Corporate Plan, the Medium Term Financial Strategy and Plan, the Capital Programme and the annual Revenue Budget. Individual Service Plans sit beneath the overarching Corporate Plan.

During the year, the budgetary plans are monitored on a monthly basis, with rectifying management action being taken to keep spending within the cash limited budgetary envelope. The longer term MTFS and MTFP are kept under review, particularly in light in changing economic and political circumstances. At the same time the Corporate Plan and Service Plans are reviewed through the Monthly Performance Report.

Leading into the next budget round, the MTFS is formally reviewed both for changes to financial circumstances, but also for changes to corporate and service priorities. Through a series of iterations, within the overall constraints of available resources, the financial plans are brought into alignment with the Corporate Plan.

# 2 National Context

## 2.1 Spending Reviews (SRs)

Spending reviews (SRs) are critically important to local authorities because the government decides how much money it will give to local government as a whole via Formula Grant. The process also determines how much money will be given to Government departments, many of whom may then provide separate funding to councils.

Spending reviews are co-ordinated and managed by HM Treasury. The dates and length of spending reviews vary. They normally take place every two years and cover a three year period: typically the final year of the previous spending review becomes the first year of the next review. Comprehensive spending reviews (CSRs) tend to be less frequent. They aim to take a longer term view and usually involve a series of zero-based reviews of public spending.

The last six spending rounds, set spending plans for the following years:

| Year | 2000 SR | 2002 SR | 2004 SR | 2007 CSR | 2010 SR | 2013 SR |
|---|---|---|---|---|---|---|
| 2001/02 | | | | | | |
| 2002/03 | | | | | | |
| 2003/04 | | | | | | |
| 2004/05 | | | | | | |
| 2005/06 | | | | | | |
| 2006/07 | | | | | | |
| 2007/08 | | | | | | |
| 2008/09 | | | | | | |
| 2009/10 | | | | | | |
| 2010/11 | | | | | | |
| 2011/12 | | | | | | |
| 2012/13 | | | | | | |
| 2013/14 | | | | | | |
| 2014/15 | | | | | | |
| 2015/16 | | | | | | |
| 2016/17 | | | | | | |
| 2017/18 | | | | | | |

SR10 set out departmental spending plans for the four years until 2015/16. This included a reduction over the period of 28% for Local Government Departmental Expenditure Limits (DELs), excluding police and fire authorities. The Chancellor, in Budget 2013, reduced local government funding for 2014/15 by a further 1%. For capital, SR10 included funding cuts of the equivalent of 45% over the period, compared with 29% over the whole of the public sector. The flexibilities of prudential borrowing were retained but interest rates for PWLB borrowing were

increased by 1% with immediate effect. However the government has subsequently introduced somewhat lower “prudential” rates that can be applied for.

SR13 included reference to a further 10% to local government funding in 2015/16. It also included reference to two major changes to adult social care

- The government believes that the recent Whole Place Community Budget pilots have demonstrated local areas’ ability to reduce demand on services and costs. It is therefore providing £3.8bn of pooled funding between the NHS and local authorities to deliver services to older and disabled people from 2015/16. However, £1.0bn of this will be performance related. The funding for this pooled “Better Care Fund” is from existing local government and NHS resources.

- The Government will make £335m available in 2015/16 so that councils can prepare for reforms to the system of social care funding, including the introduction of a cap on care costs from April 2016 and a universal offer of deferred payment agreements from April 2015. In addition, the new minimum eligibility threshold for access to state help with care costs would be “set at the level operated by the vast majority of local authorities in the current system” (these needs are ’substantial’ or ‘critical’ for the majority of authorities). Although the Government’s stated intention is that the changes will be cost neutral on Local Government, it is not at all clear that this will be the case. The passage of the Care Bill is being watched with interest.

2014/15 is last year of the current spending review. SR13 only covers the period 2015/16. Therefore the final two years of the MTFS will be in the next spending review period and a new parliament, and therefore is somewhat unknown at this stage. The Government announcement of its intention to have a further spending review in the first half of 2013 was against a background of the period of austerity being extended to 2017/18.

## 2.2 Public Spending and the Economy

The national economy and global economic climate continue to drive Government policy and decisions on public spending.

### The Autumn Statement

The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 5 December 2013. The Statement was split over three sections: The UK economy and public finances; Growth; and Fairness.

Key announcements relevant to local government within the Chancellor’s Statement are summarised below.

### Public Sector Funding

- The announcements by the Chancellor were fiscally neutral, with the stated intention of ensuring that the fiscal forecasts contributed to a continuing decline in public sector borrowing.

- The Chancellor announced further reductions in public sector expenditure for 2014/15 to 2015/16, through a reduction to Whitehall departmental budgets of 1.1%. Protection from these further budget reductions, which are expected to reduce budgets by £3bn over three years, including underspends in 2013/14, is provided for local government.

- The government has announced that "£70m of New Homes Bonus will be pooled within the London Local Enterprise Partnership. The New Homes Bonus will not be pooled to LEP's outside of London". This represents a change from the policy set out in SR2013, which proposed that £400m of business rates should be pooled with LEP's across England. The government will carry out an evaluation of New Homes Bonus by Easter 2014 and consult on measures to improve the incentive provided by NHB.

- The forecast claimant count has been reduced by between 200,000 and over 300,000, for each of the next four years in comparison with the forecasts included in Budget 2013.

- The government announced that it would increase the funding available for new affordable housing, by increasing local authority Housing Revenue Account borrowing limits by £150m in each of 2015/16 and 2016/17. This will be allocated on a competitive basis and from the sale of vacant high value social housing. The government will hold a review into the role that local authorities can play in supporting the overall housing supply.

- HM Treasury will continue to look at how public sector pay policy can be reformed. In advance of this, the government will pilot a "pay bill control" in a small number of government organisations. This will look to replace the 1% pay cap with a pre-determined budget for pay.

- The government will allow local authorities to sell assets and to use up to £200m of receipts to fund one-off costs of reforming services. This announcement follows the proposal in SR2013.

- Detail is provided on how the welfare cap announced at SR2013 will operate in detail. The precise level of the welfare cap will initially be set at Budget 2014.

**Business Rates**

- There will be a number of changes to business rates. Most significantly, there will be a cap on the RPI increase in business rates to 2% in 2014/15.

- The doubling of Small Business Rates Relief (SBRR) will be extended to April 2015 and a discount of up to £1,000 against business rate bills for retail premises with a rateable value up to £50,000 will be introduced for 2014/15 and 2015/16.

- The government has committed to clearing 95% of existing business rate appeals by July 2015.

## 2.3 Value for Money

Value for money (VFM) defines the relationship between economy, efficiency and effectiveness. A successful VFM approach delivers services at a low cost, with a high productivity and results in successful outcomes.

VFM had a raised profile as part of the Audit Commission's Use of Resources judgement, which formed part of the Comprehensive Area Agreement (CAA). All work on the CAA was stopped immediately following a decision by the Coalition Government in the summer 2011. The requirement for a scored assessment has been removed but auditors still have a continuing statutory responsibility to give a conclusion on whether audited bodies have proper arrangements for securing VFM.

Despite this change of emphasis by Government, it is still this Council's vision for improving value for money 'to be recognised as a council that provides value for money by making the best uses of our resources: including people, money, information and physical assets by our residents, employees and stakeholders.' In addition to the auditor conclusion on VFM this will be monitored and challenged by taking part in benchmarking clubs.

## 2.4 Economic situation

The Council retains the services of Capita Asset Services as its Treasury Management advisors. Part of their service is to provide commentary and forecast about the economy.

**Capita Asset Services Commentary (January 2014)**

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%), 3 (+0.8%) and 4 (+0.8%), to surpass all expectations as all three main sectors (services, manufacturing and construction) contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%).

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all the three main sectors: services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the unemployment rate has

fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.1% on the three month rate to October 2013. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did not rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate.

While the Bank of England base rate has remained unchanged at 0.5% and quantitative easing (QE) has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

A summary of the global economy is as follows:

**Eurozone**

- The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring.

- In December, Ireland escaped from its three year Eurozone bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth.

- The Eurozone finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth.

- The European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bail-out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession.

- However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate.

- Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

- Greece remains particularly vulnerable and continues to struggle to meet Eurozone targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely.

- There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

**USA**

- The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that came into force on 1 March, and increases in taxation.

- The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn.

- It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013.

- The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending.

- All this portends well for a reasonable growth rate looking forward.

**China**

- There are concerns that Chinese growth could be on an overall marginal downward annual trend.

- There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.

- There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

**Japan**

- The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled.

- However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from stagnation and deflation and so help to support world growth.

- The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

**Capita Asset Services Forward View (January 2014)**

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Federal Reserve. The timing

and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been delayed. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.

- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014.

- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.

- Prolonged political disagreement over the raising of the US debt ceiling.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

- A resurgence of the Eurozone sovereign debt crisis caused by on-going deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.

- A lack of political will in France, (the second largest economy in the Eurozone), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.

- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

## 2.5 Effect on Local Authority finances

In times of recession and economic retrenchment there are increased demands for local authority services from residents and local businesses. Despite recent encouraging signs at a national macro level, the effects of economic recovery have yet to reach most people and businesses at a local level. This coincides with less, or delayed, income from Council Tax, Business Rates and fees and charges.

The measures being taken by the Coalition Government continue to reduce the funding available from Formula Grant and restrict the amount local authorities can raise in Council Tax. To lessen the effect of this, the Government has removed the ring-fencing from most grants so that local authorities can decide how best to apply them to services, and is continuing to give a grant to local authorities who do not increase their Council Tax.

The Coalition Government has offered a fourth year freeze grant, equivalent to a Council Tax increase of 1%, with the grant lasting for the two years 2014/15 and

2015/16. The proposed budget accepts this grant. The Government has also signalled its intention to baseline the 2014/15 grant into government funding from 2016/17 onwards, and to offer a 2015/16 freeze grant next year.

The Coalition Government also introduced major changes from 2013/14 that significantly increases the financial risk environment that the Council finds itself in.

- Council Tax Benefit became a localised scheme from 1 April 2013. Central government have handed over full responsibility, but with only 90% of the required funding. The Council has had to therefore introduce a scheme that reduces the benefit payable to working age claimants by 25% (as the Government has insisted that pensioners have their benefits position protected). The Council therefore now carries the financial risk of a growth in claimant numbers, which it will need to fully fund, and the risk of non-collection of the 25% council tax liability charged to working age claimants for the first time.

- Business rates have also been "localised". The Government has not given any local control over the business rate poundage – that will still be set centrally. However as part of the financial settlement, local government retains 50% of money assumed to be raised from local businesses. This is topped up by Revenue Support Grant and "top-up" payments to the full amount of the baseline need. Should actual business rate receipts exceed expectations the additional income is shared with central government. However the converse is also true; subject to certain safety net arrangements, the risk of lower business rate receipts is also shared. Local government funding is therefore now intrinsically linked to the performance of the local (and national) economy.

- 2015/16 will see the introduction of the Better Care Fund between the Council and Southend Clinical Commissioning Group, pooling at least £12.7 million of existing funding streams between the two organisations to develop transformation changes to the delivery of services to older and disabled people. Locally some £3.4 million of this fund will be performance related. The success of this initiative is therefore crucial to not only securing the funding, but also to underpin our ability to continue to drive necessary efficiency and therefore monetary savings in this area.

- 2016/17 will see major social care reform, including the introduction of a cap on care costs. Currently flagged as financially neutral on local government, details are still be finalised with the passage of the Care Bill. At present the MTFS makes no additional provision for any potential impact of these reforms.

The combined effect of the recession and the deficit reduction measures has been to increase costs, whilst reducing income and funding, leading to large budget gaps to be bridged in each of the next four financial years.

# 3 Hierarchy of Plans

## 3.1 Sustainable Community Strategy

The Sustainable Community Strategy (SCS) provides the Vision for Southend as agreed by partners on the Local Strategic Partnership (Southend Together). Southend Together is a single body that brings together at a local level the different parts of the public sector as well as the private, business, community and voluntary sectors so that different initiatives and services support each other and work together. The current SCS is a 10 year vision from 2007-2017. The Corporate Priorities are developed in conjunction with the SCS.

## 3.2 Corporate Plan

The Corporate Plan ensures that the Council's aims and priorities are focused on delivering its Vision for the community and the aspirations set out in the Sustainable Community Strategy. It is the Council's method of communicating to its stakeholders how it will realise its vision and deliver the five corporate aims. It sets out:

- An overview of the Council's long-term Vision, Aims, and Priorities;
- An assessment of 'where we are now';
- A summary of 'where we need to be'; and
- An outline of 'what do we need to do to get to where we need to be'.

The Corporate Plan operates at three levels:

- As a Corporate Plan translating community ambitions – as set out in the Sustainable Community Strategy - in to Council priorities;
- As a Performance Plan, reporting the Council's performance against it's priorities and outlining improvement opportunities; and
- As an Annual Report – enabling stakeholders to view service and financial performance of the Council.

Southend's Corporate Plan is a three-year rolling plan and the MTFS is embedded within and integral to it. The priorities and desired outcomes within the Corporate Plan drive the MTFS.

The Corporate Plan is refreshed annually to take account of any changes – for example new challenges, achievements, national and local influences, feedback from inspection reports; and also to assess whether sufficient progress has been made.

### 3.3 Partnerships

The Council is a key partner of Southend Together, a group of voluntary organisations, public sector agencies, and representatives of local businesses working to achieve shared goals for the Borough. The Vision and Aims in the Corporate Plan are the council's contribution to the overall Community Vision for Southend.

The Council believes that working in partnership is the best way of identifying and meeting the needs of all its communities. This includes the delivery of services in partnership, for example with the health or law enforcement sectors, the voluntary and community organisations in the town, and with the private sector. The clear direction of travel, set by customer demands, government policy and financial effectiveness, is for increased integration and joint working.

# 4 Corporate Plan

## 4.1 Corporate Vision

The corporate vision of 'Creating a better Southend' sets out the Council's purpose and what it is working to achieve. 'A better Southend' is defined as a place:

- with a strong and cohesive community and attractive environment;
- where people are able to maximise their potential and have an excellent quality of life;
- that is desirable for people to live, learn, work, visit and play in harmony with each other, whatever their differences or backgrounds;
- which celebrates the widest range of cultural activities and benefits from outstanding learning opportunities.

## 4.2 Corporate Aims

The corporate aims cover the main challenges and keep the Council focussed on what is important and connect it with local people's views. They help the council monitor how well it is achieving its plans and help it decide where to allocate available resources. The aims are:

**A Safer Southend** will be somewhere with low crime rates and low fear of crime, where our night time economy is welcoming and anti-social behaviour is uncommon. Our vulnerable people will have independent and meaningful lives within the community. Our environment and roads will be safe.

**A Cleaner Southend** will have streets, parks and outdoor spaces that are clean and inviting. Local people will consume less, recycle more and will be confident that their waste is collected and disposed of well.

**A Healthier Southend** will have high quality healthcare services with reduced health inequalities between residents in different parts of the borough. We will have a thriving healthy schools programme. Good quality housing will support community well-being and vibrant sport, culture and leisure opportunities will contribute towards healthier lifestyles.

**A Prosperous Southend** is where companies invest here because of our good transport networks, attractive environment and excellent skills base. Businesses start-up, develop and expand. Local people can, at any age, have high quality education and learning and fulfilling employment opportunities. Vibrant and varied leisure activities and tourism activities will increase visitor numbers. It also provides a supportive environment for businesses and the local economy during the current economic downturn.

**An Excellent Council** delivers high performing, high quality, value for money services that continuously improve. We listen to our community and design services which meet their needs. We work well with our key partners to help our communities develop, identify needs and deliver high quality services.

### 4.3 Corporate Priorities

The Corporate Priorities support the aims and vision of the Council along with the objectives of Southend Partnerships to improve the quality of life, prosperity and life chances for people in the borough.

| **Council's Vision** | **"Creating a better Southend"** |
|---|---|
| **Council's 5 Aims** | **Council's 9 Corporate Priorities 2014-15** |
| **Safe** | Continue to reduce crime, disorder and anti-social behaviour |
| **Clean** | Ensure a well maintained and attractive street scene, parks and open spaces |
| | Where possible minimise our impact on the natural environment |
| **Healthy** | Continue to improve outcomes for vulnerable children and adults |
| | Support Southend to be active and alive with sport and culture |
| | Reduce inequalities and increase the life chances of people living in Southend |
| **Prosperous** | Encourage the education, economy and prosperity of Southend and its residents |
| | Enable well-planned quality housing and developments that meet the needs of Southend's residents and businesses |
| **Excellent** | Deliver cost effective, targeted services that meet the identified needs of our community. |

## 5 General Fund Services – 2014/15

The Corporate Priorities are reflected in the 2014/15 General Fund budget being recommended to Council at its meeting on 27 February 2014. It includes proposals for savings and efficiencies totalling £7.319 million to balance the budget, these are summarised below by the relevant Department:

- Corporate Services £905,000
- People £4,468,000
- Place £951,000
- Corporate Savings £95,000
- Category Management £900,000

The 2014/15 General Fund budget also includes:

- Inflation Allowance of £1,240,000.
- Corporate Cost Pressures of £1,670,000.

The proposals for savings and efficiencies for 2014/15 are summarised in Annex 1 and are incorporated into the Medium Term Financial Plan in Annex 3.

## 6 Housing Revenue Account – 2014/15

The Housing Revenue Account is a ring-fenced account which stands separate from the General Fund, although there are charges between the two funds to reflect Service Level Agreements and corporate support services.

Under the provisions of the Localism Act 2011, the Housing Revenue Account (HRA) became "self-financing" on 1 April 2012: That is in return for the payment of lump sum, funded by borrowing, to HM Treasury, the HRA no longer has to pay negative subsidy each year to the Government. The HRA is the statutory "landlord" account for the authority. The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the HRA balance. Changes to regulations over recent years, notably the introduction of rent restructuring in 2002, mean that the dwelling rent income streams had become largely fixed. The approach in recent years has been to work within the guidelines set by the government. Despite the introduction of "self-financing" for the HRA no longer requiring strict adherence to rent restructuring, the same approach has been continued given that the settlement underpinning self-financing assumed its continuance until 2015/16.

The HRA estimates have been prepared alongside South Essex Homes, and incorporate their management fee bid.

For 2014/15, an average rent increase of 5.76% is assumed. A local policy for convergence to formula rents is also proposed, in light of the Governments' recent consultation paper on this area.

The HRA MTFS Medium Term Financial Strategy demonstrates that the HRA is financially robust, as long as we continue to make efficiencies within the HRA and achieve value for money in the management and maintenance of the stock.

It also means that the Council now has a secure financial basis on which to bring forward a strategic housing development plan dealing with opportunities to both support the need to reinvest back into the existing stock and to allow for a more innovative capital programme that could allow for stock remodelling, new build etc.

## 7 Asset Management Plan

The Asset Management Plan (AMP) sets out the way in which the Council makes decisions on asset related matters and identifies procedures and governance arrangements to monitor and improve the use of its assets to increase efficiency and maximise returns. The plan is reviewed annually alongside the MTFS.

The Plan divides all the Council's assets into five investment blocks. These are

- Operational assets – The Council's operational buildings
- Non-operational assets – The Council' investment portfolio
- Regeneration assets – Assets acquired or held to support regeneration.
- Surplus Assets – Assets which have no sound case for retention.
- Infrastructure required to deliver the Plan, notably ICT

Some assets sit within specific policy and legislative frameworks, or are important by virtue of specific features of Southend. These are housing, highways and transport assets, schools and children centres, car parks, listed buildings and designated areas, and the sea defences and cliffs.

The AMP brings asset-related decision making (on acquisition and disposal) together with the procedures guiding investment through the Capital Programme. The structure maintains a Capital Strategy & Asset Management Group (CS&AMG) which evaluates the business cases on larger projects, and makes recommendations to the Capital Board. The CS&AMG also develops and agrees the disposals strategy and monitors performance. The Capital Board, chaired by the Chief Executive, continues to ensure that the programme is in accordance with corporate priorities before recommendations are made to Cabinet.

## 8 Capital Programme

### 8.1 Capital Expenditure

Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, such as houses, schools, vehicles etc. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support the revenue budget. However, it should be noted that revenue funding can be used to support capital expenditure.

Under the Local Government Act 2003, from 1 April 2004, each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The Government does have powers to limit the aggregate for authorities for national economic reasons, or for an individual authority.

For the HRA, under the Localism Act 2011, there is an absolute cap on the amount of borrowing that can be undertaken for HRA purposes.

Unsupported borrowing is not specifically financed by either capital grant or no longer as a separate stream in the Government revenue grant. However, the Council has full discretion on how it allocates its formula grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available resources to the Council from both Grant and Council Tax in the setting of its Council tax

### 8.2 Spending plans 2013/14 to 2017/18 (and later years)

The Council's proposed capital programme for 2013/14 and future years is summarised below:

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 and later years £000 | Total Budget £000 |
|---|---|---|---|---|---|---|
| Approved Capital Programme (Nov 2013) | 52,261 | 42,458 | 13,961 | 9,691 | 0 | 118,371 |
| Reprofiles & Amendments | (6,240) | 3,748 | 2,472 | 171 | 0 | 151 |
| New External Funding | 99 | 4,242 | 3 | 0 | 0 | 4,344 |
| Proposed Additional Schemes | 0 | 8,682 | 12,433 | 16,084 | 23,504 | 60,703 |
| **Current Proposed Programme** | **46,120** | **59,130** | **28,869** | **25,946** | **23,504** | **183,569** |

### 8.3 Funding of the Capital Programme

The proposed capital programme presented in this report is currently fully funded and has been prepared based on the level of borrowing the Council can support, notified capital grants, prudent assumptions over the level of other grants and the timing and valuation of capital receipts (from the sale of existing surplus Council assets) that will be realised.

The financing of the capital programme will continue to be supported where possible by the generation of capital receipts from the sale of surplus Council assets. Since 2011, the Council's approach to property disposals has been geared to reflect members' requests to ensure that, wherever possible, assets are used to generate revenue, with freehold disposals being a last option. This recognises the Council's increasing revenue pressures whilst still delivering a modest programme of capital receipts through the current challenging property market. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing to fund the Capital Programme.

When the Council enters into Prudential Borrowing to fund Capital expenditure, there is a revenue impact and therefore an increase to the Councils budget requirement. As an indicative guide to the revenue consequence, there is a cost of approximately £80k for every £1m borrowed or if £8m is borrowed this would equate to an increase in Council Tax of around 1%.

The full impact of borrowing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2014/15 to 2017/18.

In summary, it is the Chief Financial Officer's view that the 2014/15 to 2017/18 Capital Programme is Prudent, Affordable and Sustainable.

## 9 Treasury Management Policy and Prudential Indicators

### 9.1 Background

Treasury Management is an area of activity which covers the management of the council's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks.

The budget includes provision for the financing costs of the Council's Capital Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.

The CIPFA Prudential Code for Capital Finance in Local Authorities has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures affordability, prudence and sustainability.

### 9.2 Borrowing

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

The agreed operational boundaries and authorised limits for the years 2014/15 to 2016/17 are shown in the table below:

| | **Estimate 2014/15 £m** | **Estimate 2015/16 £m** | **Estimate 2016/17 £m** |
|---|---|---|---|
| Operational boundary | 300 | 310 | 320 |
| Authorised limit | 310 | 320 | 330 |

The capital financing requirement represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years (i.e. Minimum Revenue Provision and Reserved Capital Receipts).

The estimates for the capital financing requirement for the years 2014/15 to 2016/17 are:

| | Estimate 2014/15 £m | Estimate 2015/16 £m | Estimate 2016/17 £m |
|---|---|---|---|
| General Fund | 193.0 | 196.5 | 203.1 |
| Housing Revenue Account | 100.1 | 100.1 | 100.1 |
| **Total** | **293.1** | **296.6** | **303.2** |

The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

Approved sources of long term borrowing are banks or building societies or the Public Works Loan Board (PWLB), which is a statutory body whose function is to lend money to local authorities and other prescribed bodies.

New borrowing will be undertaken as and when required to finance capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital programme.

Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.

Similarly, some of the Council's borrowings could be at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.

The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of the overall budget strategy.

### 9.3 Investments

The Council's investment objectives are:

- To secure the principal sums invested
- To maintain liquidity (i.e. adequate cash resources)
- To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk

The Council currently uses one external fund manager who manages approximately £25m of the Council's money. The remaining funds (initially projected to be an average of £75m in 2014/15) are managed in-house.

Cash flow forecasts are produced in order to inform in-house investment decisions. The investment period and amount invested are determined by the daily cash flow requirements of the Council and the investment criteria and limits set out in the Annual Investment Strategy.

The type of investment and the counterparty in which to invest are determined in accordance with the investment criteria set out in the Annual Investment Strategy

## 9.4 Financial Outlook on Interest Rates

The investment environment remains very difficult. Whilst counterparty risk appears to have eased, it remains at elevated levels and economic forecasts abound with uncertainty.

The outlook is one of continuing low interest rates and consequently low investment income earnings. The Bank of England base rate remains at 0.50% and based on economic forecasts, it is assumed that this will remain the case throughout 2014/15. Given the current economic conditions, interest rate forecasts into the medium term should be viewed with caution.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £375k in external interest earned and a difference of £1m in average balances would make a difference of £6k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Head of Finance and Resources.

## 10 Corporate Assurance and Risk Management

The Council identifies key risks that may prevent the Corporate Priorities from being achieved. A process is in place to identify how significant the risk is, and the potential impact that it may have should the risk occur. Those risks scoring highly in terms of significance and impact, are identified and form the Council's Corporate Assurance and Risk Register. Actions to reduce the identified risks and ensure assurance on the controls detailed within the register are subject to regular monitor through the Council's Audit Committee.

The following Corporate Risks have been reviewed by the senior leadership group and were also reviewed by Audit Committee on 8 January 2014:

- **Balanced Budget 2013/14** - Risk that inability to deliver savings and a balanced 2013/14 budget will result in an in year overspend

- **Staff Engagement** - Risk that failure to manage the downsizing of the Council's workforce effectively will lead to reduced staff engagement and decreased performance

- **Reputational Damage** - Risk that negative criticism received as a result of undertaking budget savings, a reduction in service quality or contractor insolvency will significantly damage the reputation of the Council

- **Business Continuity** - Risk that the Council's business continuity processes are not robust enough to enable the provision of key services in an emergency

- **Financial implications of legislation and other Government policy changes** - Risk that the impact of government policy, particularly in relation to welfare reform, localisation of Council Tax and Business Rates, the Social Care and Support Bill and the outcome of the CSR, will have a significant impact on the Council's finances

- **Impact of Health Service reforms** - Risk that unsatisfactory new joint working/commissioning arrangements & relationships between respective health/social care partners will result in poor use of resources & an inability to deliver specialist/mandatory requirements at the expected standard

- **Regeneration** - Risk that the failure to ensure the required capacity, governance and physical infrastructure is in place limits or delays the Councils plans for regeneration in Southend.

- **Police and Crime Commissioner** - Risk that the new Police & Crime Commissioner (PCC) and subsequent centralisation of funding will lead to service loss or changes to service that no longer reflect the borough's priorities

- **Shoebury Sea Defence** - Risk that failure to engage and communicate with residents effectively on proposals leads to negative criticism of the council which will damage the reputation of the council

- **School Inspection Regime** - Risk that the new Ofsted Inspection ratings for schools will result in a perceived decline in Southend schools performance.

These Corporate Risks are explored through the Service and Resource Planning framework.

## 11 Reserves Strategy

### 11.1 General Fund Reserve

In relation to the adequacy of reserves, the Council's Section 151 Officer (Head of Finance and Resources) recommends the following Reserves Strategy based on an approach to evidence the requisite level of reserves by internal financial risk assessment. The Reserves Strategy will need to be reviewed annually and adjusted in the light of the prevailing circumstances.

i) An absolute minimum level of General Fund reserves of £8 million that is maintained throughout the period between 2014/15 to 2017/18;

ii) An optimal level of reserves of £10 million over the period 2014/15 to 2017/18 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;

iii) A maximum recommended level of reserves of £12 million for the period 2014/15 to 2017/18 to provide additional resilience to implement the Medium Term Financial Strategy;

iv) A Reserves Strategy to remain within the recommended range for reserves over the relevant period of 2014/15 to 2017/18.

These recommendations were conditional upon not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions.

### 11.2 Housing Revenue Account

In relation to the Housing Revenue Account (HRA) in 2014/15 and the medium to long term:

i) Given the current status of housing management provision the recommendation is that reserves be maintained at £3.0m.

ii) A 2014/15 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with a MTFS

iii) Forward projections for the HRA beyond 2013/14 have been modelled based on a 30 year business plan developed to support the introduction of the self-financing reforms for the HRA.

### 11.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2013 to 31 March 2018 are shown in Annex 2. The balances at 31 March 2014 to 2018 are indicative, based on the assumptions in this report, and do not represent the probable figures that will be disclosed in future years Statement of Accounts.

## 12 Fees and Charges Strategy

Raising revenue from charges for services is an important element in the overall financing of the Council's services and activities. It can in other circumstances play a range of other roles, including demonstrating the value of a service or discouraging abuse of a service. It can also play a role in furthering service and strategic objectives. Consideration is therefore given on a regular basis to the scope for raising revenue through charges for services and to reviewing the appropriateness and adequacy of the levels of charges being proposed or actually in force.

In accordance with best practice, the Council:

- undertakes regular reviews of the approach to charging, both within service areas and across the whole council

- engage service users in decisions about whether and at what level to charge for services

- collect and use information on service usage and the take-up of concessions, and examine the impact of charges on individual households, to assess whether equality and diversity objectives have been achieved.

## 13 Funding of the Net Budget Requirement

### 13.1 Government Funding – Grant and Finance Settlement

Government funding through revenue support grant and top-up payments in respect of retained business rates is the main provider of funding for the Council's total general fund budget (excluding schools). As such it represents a significant factor in determining the Council's revenue budget. The provisional Local Government Finance Settlement for 2014/15 and indicative 2015/16 was issued by the Department for Communities and Local Government (DCLG) on 18 December 2013 and this represented year 4 of the Government's spending plans arising from the Spending Review 2010 and its first year of the next cycle of spending plans. The final Local Government Settlement was announced on 5 February 2014.

This Finance Settlement maintains the key changes in the way that Local Government is now financed, which was introduced in April 2013. To recollect for Members the main changes arose from the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. The settlement now provides authorities with a combination of provisional grant allocations and their respective starting points within the BRR scheme. It also saw the start of the localisation of council tax support, and therefore the inclusion of a fixed sum of grant to compensate local authorities for a notional 90% of the cost of the previous council tax benefit arrangements.

The key points arising from the settlement for Southend-on-Sea Borough Council are:-

- The final Settlement Funding Assessment (SFA) for 2014/15 is £69.601m. This compares to a SFA of £77.179m in respect of 2013/14 (a reduction of £7.578m and equivalent to a 9.8% reduction); the indicative funding settlement for 2015/16 is £59.813m being a further £9.779m or 14.1% reduction in projected resources;

- Some capital and specific grants are provisional and yet to be announced in full;

- A further Council Tax freeze grant has been confirmed and those Councils that freeze their Council Tax will benefit from the equivalent cash sum of a 1.0% Council Tax increase, before any adjustment for the local council tax support scheme. This grant is payable for two years. A subsequent announcement by the Secretary of State has indicated that this funding will now be merged into the on-going Local Government settlement that Council's receive to avoid any cliff edge in funding if Council's choose to accept the freeze grant. On 15 January 2014, the DCLG confirmed in a letter to all Local Authorities the above position in respect of the Council Tax Freeze Scheme for 2014/15.

- The 2014/15 referendum limit for Council Tax increases has been set at 2% (2013/14 was also set at 2%) as part of the final Local Government finance settlement announced on 5 February 2014.

- Separate NHS funding continues with the announcement of £3.777million in 2014/15. This NHS Funding is to support social care and benefit health. The allocation will initially go to NHS England who will then satisfy themselves that the funding will be spent by the Council on the two areas required of social care and benefit health. The appropriate sums will then be allocated to the Council for expenditure on the approved areas. From 2015/16 this funding stream will be replaced by the Better Care Fund; a pooled budget between the Council and Southend CCG. Initial indications are that the pooled budget from existing NHS and Council resources will include no less than £12.772 million of funds;

- The consultation on the provisional finance settlement ended on 15 January 2014 and this informed the final settlement on 5 February 2014;

- The provisional national non-domestic rates (NNDR) poundage has been set at 48.2p (2013/14 = 47.1p), having been uplifted by a reduced rate of 2% compared to the previous Government arrangement of an uplift by RPI inflation for September 2013 of 3.2%. The associated small business poundage has been set at 47.1p (2013/14 = 46.2p). Non-domestic rates are set nationally by the Government and collected locally by Councils (billing authorities). Under the new arrangements for the localisation of business rates a sum of 50% is returned to Government who then reapportion this sum back to Local Government as part of their main grant settlement. The remaining 50% is retained 49% by the Council and 1% is distributed to the Essex Fire Authority. The Council's actual income from business rates is therefore dependent upon the performance of the local economy, the success of any rating appeals and collection rates. The Police Authority receive their funding separately;

- The Public Health service grant allocation for 2014/15 is £8.060 million with the same level currently forecast for 2015/16.

### 13.2 Dedicated Schools Grant (DSG)

The DSG is now based on pupil numbers in the October before the beginning of each financial year allowing an estimate of grant to be made in order for local authorities to calculate individual school budgets by early March.

The total DSG for 2014/15 is £135.6 million (2013/14 = £132.7 million), an increase of 2.2% on the previous financial year. In practice the final DSG will exclude funding for the 12 Academies and is estimated to reduce to £91.0 million for maintained schools and high needs. In addition to funding from the DSG, schools will receive an increased Pupil Premium grant, which will provide £1,300 / £935 of funding per primary / secondary pupil (2013/14 = £953 / £900 per pupil) who have been registered for free school meals in any of the past 6 years. Based on estimates the Pupil Premium will provide an additional £7.9 million for schools

in Southend-on-Sea (both Maintained and Academy schools). This is compared to £6.2 million of Pupil Premium in 2013/14.

### 13.3 Council Tax

There is a nil increase in Council Tax for 2014/15 on the basis that the Council accepts the latest Council Tax Freeze Grant offer. For planning purposes an increase of 1.5% has been assumed for 2015/16 onwards.

For 2013/14 Southend-on-Sea Borough Council had the fourth lowest Band D Council Tax (including Police, Fire and Leigh Parish) of all the unitary councils and the second lowest of the local authorities in Essex.

As an indicative guide, for Southend Borough Council every increase of 1% raises £610k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

The Council Tax Base is the number of band D equivalent properties/dwellings, or, looked at another way, it is the amount of money the billing authority estimates it can raise for each £1 of council tax set at the band D level, after relevant discounts and exemptions. Changes in the number of households affect the tax base for Council Tax purposes, as does the number of Council Tax Support claimants, and hence the total amount which will be raised from this source. The Council Tax base for 2014/15 is 53,755.87 (equivalent Band D properties).

Southend is home to around 173,600 residents in 74,700 households (2011 population estimates from last census). The available land area and the current density of housing is such that there are fewer opportunities to increase the Tax Base that there are in more rural authorities.

## 14 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2014/15 to 2017/18 is shown in Annex 3.

### 14.1 Key Assumptions

The following assumptions have been made in producing the Medium Term Financial Plan for the Revenue Account:

**Funding**

**Council Tax** - the increase is assumed to be 1.5% each year from 2015/16 to keep it in line with the Government's intention to keep Council Tax rises down.

**Formula Grant** – the figure for 2014/15 was announced on 5 February 2014. The Government has also announced a provisional figure for 2015/16, being some 27.4% below that for 2014/15. The Formula Grant is assumed to fall by a further 25% and 30% in 2016/17 and 2017/18 respectively.

**Business Rates** – the figure for 2014/15 is a combination of the fixed top-up payment the Council receives from government and a local assessment of the net amount raised locally that the Council will retain. Both elements are assumed to grow by 2.8% in 2015/16.

**Support from Collection Fund** – no surpluses have been estimated for each year from 2015/16. This is a prudent view based on Council Tax increases of 1.5% and forecasts of housing completions, increases in discounts and exempt properties, and taking into account the effect of the current economic climate on collection rates.

**Inflation and Fees & Charges**

**Pay award** – there is assumed to be an increase of 1.0% in 2014/15 through to 2017/18. This is based on the assumption that, given the current level of inflation and the upward influences on inflation in the future, there could potentially be pressure on pay inflation.

**Inflation on goods and services** – inflation is only being provided for major contractual commitments, utilities and business rates. Services are expected to absorb any other price inflation within existing resourcs.

**Fees and charges** – it is assumed that these will generally increase by 2% each year but this assumption may need to be reviewed depending on local economic circumstances.

**Corporate Cost Pressures**

**Employers' pension contributions** – the new triennial actuarial valuation covers the three years 2014/15 to 2016/17, and the financial impact built into the MTFS. A new valuation, as at 31 March 2017, will be undertaken, that will

be effective from 20167/18. It is not known at this stage what financial pressures this will bring. However in anticipation a further increase of £750k is assumed for 2017/18.

**Interest** – the capital programme, although partly funded by grants and HRA funds, implies an increase in borrowing as set out in the Treasury Management and Capital Strategies. The MTFS allows for the increased net costs of interest payments required to support this borrowing.

**Costs of Transformation** – with the on-going downward pressure on net spending, it is inevitable that there will be upfront costs associated with service redesign and the introduction of new service delivery models. The MTFS makes provision for this.

**Department Savings/Pressures**

Identified income/savings – it is assumed that these will be achieved in full in each of the years in which they have been identified. With the unpredictability of demands on services, and potential new legislation, services could experience increasing cost pressures and this is also reflected in the plan.

**NHS Funding**

There is separate funding of £3.8 million in 2014/15 for NHS Funding to support social care and benefit health. This sum is not in the Council's base budget. The allocation will initially go to CCGs who will then satisfy themselves that the funding will be spent by the Council on the two areas required of social care and benefit health. The appropriate sums will then be allocated to the Council for expenditure on the approved areas. From 2015/16 these funds will be absorbed into the pooled Better Care Fund.

**Housing Revenue Account**

From 2012/13 the HRA became self-financing, and is no longer subject to the HRA subsidy regime.

Under self-financing, the HRA funds its expenditure, including its capital expenditure, from its income streams (primarily tenant's rents). Some grant funding may be available to support capital expenditure within the HRA going forward, but there is no assumption of external funding built into forward projections.

The HRA continues to be run on a breakeven principle. Forward projections of income and expenditure are based on an underlying inflation assumption of 2.5%.

**Schools**

No change in the DSG has been assumed as the Government are considering moving to a new national funding formula for schools and no further details are currently available.

### 14.2 Sensitivity analysis

The effect of changes to these assumptions on the budget gap for 2014/15 and on the Council Tax, are shown in the following table:

| **Assumption in MTFP for 2015/16** | **Change in assumption** | **Effect on the budget gap for 2015/16** | **Effect on Council Tax** |
|---|---|---|---|
| Council Tax increase of 1.5% | No Council Tax increase | Increase of £199k (net of indicative freeze grant) | |
| Formula Grant as per provisional settlement (27.4% reduction on 2014/15) | Formula Grant decreased by 30% | Increase of £988k | Increase of 1.6% |
| Retained Business Rates growth at 2.8% | Retained Business Rates growth at 2% | Increase of £256k | Increase of 0.4% |
| 1% pay award | Pay award of 2% | Increase of £700k | Increase of 1.1% |
| Inflation for contractual goods and services at 3% | Inflation for contractual goods and services at 4% | Increase of £333k | Increase of 0.5% |
| Fees and charges increased by 2% | Fees and charges not increased | Increase of £400k | Increase of 0.7% |
| 100% of identified on-going savings of £7.319M will be achieved in 14/15 | 95% of identified on-going savings of £7.319M will be achieved in 14/15 | Increase of £366k | Increase of 0.6% |

### 14.3 Financial Planning 2014/15 to 2017/18

The Medium Term Financial Plan as shown in Annex 3 takes account of all the factors highlighted throughout this strategy that lead to cost pressures and restrictions on income and funding. The resulting budget gap for 2014/15 has been closed by the proposed savings totalling £7.319 million as set out in Annex 1. The budget gaps remaining for the financial years 2015/16 to 2017/18 are set out below:

| | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **Total** |
|---|---|---|---|---|---|
| Remaining budget gap | £0m | £16.3m | £10.9m | £10.1m | £37.3m |
| Budget gap as a % of the 2014/15 net budget requirement | 0% | 11.7% | 7.8% | 7.3% | 26.8% |

## 14.4 2015/16 and Beyond

In addressing the national economic situation the Coalition Government has emphasised the need to look at an initial four year programme of public sector spending restraint and reconfiguration. This was reinforced in the Chancellor's annual autumn speech in December 2013 with further restriction placed on the Government's public spending plans up to 2018. The Chancellor has also just announced in the New Year the need for a further £25bn Public spending reduction in the period after the next election in 2015 with approximately half of this anticipated to come from welfare changes. The tightening and reduction of Government funding contributions to local government funding and the new Government's changes from April 2013 for the funding of Local Government, means that the current financial challenges for 2014/15 and beyond need to be seen as part of a much longer period of financial retrenchment and councils will need to consider a longer spending reduction programme than normal.

Like all local authorities in England, Southend-on-Sea Borough Council is facing unprecedented financial challenges. The Council has, over a number of years, addressed significant funding gaps whilst also achieving improved efficiency and service delivery. In the current, and forecast, period of national financial stringency the scale of financial contraction is such as to challenge the scale, nature and purpose of the role of the Council.

Traditionally, and particularly over recent years, the nature of Council activity has seen an increase in the level of directly delivered services for the local populace and for local businesses and visitors. Many services have been delivered on a universal basis and free or at limited cost. As funding continues to reduce greater pressure is being placed upon the services provided by the Council and also the way in which these are delivered.

Since the beginning of the current national financial crisis the Council has striven to sustain its full range of services but it is increasingly likely that this approach will be unviable.

It is proposed that the Council will increasingly focus the delivery of its services in a targeted way, concentrating on delivering services to those residents who need the Council's help. The Council will also adopt this as an approach in tailoring the delivery of its many statutory services. To underpin this approach the Council will also reposition its role as one to help the community, its residents and businesses, to take personal control of as many factors affecting their lives as is possible.

The Council will adopt an increasing approach of working, and delivering services, in partnership with other agencies, the voluntary and commercial sectors, and the community itself. As part of this approach the Council will encourage the sustenance of community services in collaboration with the local communities, encouraging community capacity to operate in appropriate circumstances.

The Council will also seek to address critical issues such as equality, disadvantage, lack of attainment and poverty by working with communities themselves, seeking enhanced training and opportunity and by fostering and

promoting the local economy and thereby enhancing opportunities for aspiration, attainment, household income and personal achievement.

Given the financial challenge we have and are to continue to face for a number of years, a continued programme of corporate work streams will continue with this efficiency drive and to help support the identification of savings for future years. This will allow us to have a programme driving transformational change in the organisation and will allow a clear focus on delivery of the required significant savings that will be required over this period.

This programme of corporate work streams will have helped to deliver savings of nearly £9million over the period 2012/13 to 2014/15.

Over the coming year it will be extremely important to consider future year potential savings proposals in anticipation of delivering tailored services for the community whilst addressing the known budget reductions required from our total budget and reflecting the estimated significant government grant reductions. It is currently anticipated that further savings in the order of £37 million will be required form the Council's £133m annual net budget for the three years 2015/16 to 2017/18 respectively.

It is clear that the budget savings presented for 2014/15 cannot be repeated in successive years without the Council considering how it delivers services across the borough to avoid duplication of overheads, achieve economic delivery and still provide facilities and services valued by the community.