Appendix 17

MEDIUM TERM FINANCIAL STRATEGY 2018/19 to 2021/22

February 2018

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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. Spending Review 2015 (SR15) announced in November 2015 set out the Government's spending plans for the remainder of the current Parliament, but also announced another fundamental review in Local Government Funding and Responsibilities. That spending review period ends in 2019/20, with the next review SR19 being planned for some time in 2019. The UK is also due to leave the European Union 29 March 2019, the impact of which is currently unknown.

The review of local government funding continues, although limited information is available as to the likely impact. On issue of the draft financial settlement for 2018/19, the government indicated that business rates would move from 50% local retention to 75% from 2020/21. Of itself this would be designed to be revenue neutral, in that government would withdraw grants, including any residual Revenue Support Grant and the Public Health Grant, and adjust business rates top up / tariffs to the value of the additional rates retained. The Council will benefit if the business rates base grows faster than government expectations; conversely we will carry more of the risk of the rates base declining. Business rates will of course remain set by central government.

The other strand of the local government funding review is the “Fair Funding Review”. This review will take a fundamental look at how relative needs are calculated between areas and between services. It will also review the income generating capacity of different areas. This will result in a new distribution formula for local government funding due for implementation in 2020/21, most likely with some form of transitional arrangements. The quantum of funding to be distributed will be set by SR19.

This MTFS therefore incorporates the headline numbers from SR15, but until the funding reviews have been finalised there remains an inherent level of uncertainty of the impact on the Council. As such the second half of this MTFS must be viewed very much as provisional thoughts on the potential outcomes from the Local Government Funding review rather than accurate forecasts.

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. 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 four spending rounds, set spending plans for the following years:

Year	2007 CSR	2010 SR	2013 SR	2015 SR	2019 SR
2007/08					
2008/09					
2009/10					
2010/11					
2011/12					
2012/13					
2013/14					
2014/15					
2015/16					
2016/17					
2017/18					
2018/19					
2019/20					
2020/21					
2021/22					

A spending review is anticipated for 2019, but the timing and content cannot be predicted with any certainty. As such, the last two years of this MTFS fall outside of the current spending review, with all the fiscal uncertainty that that therefore brings.

SR15 set out the government's spending plans for 2016/17 to 2019/20. The government has protected a number of core priorities from the spending reductions and these include:

- Spending 2% of Gross Domestic Product (GDP) on defence for the rest of this decade;
- Spending 0.7% of Gross National Income on overseas aid;

- Providing the NHS in England with £10 billion per year more in real terms by 2020/21 than in 2014/15;
- Protecting schools' funding in England in real terms over the Spending Review period;
- Protecting overall police spending in real terms over the Spending Review period; and
- Maintaining funding for the arts, national museums and galleries in cash terms over this Parliament.

Notwithstanding the UK vote to leave the European Union, the change in Prime Minister and the 2017 general election, SR15 remains the most current spending review.

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 Budget

The Chancellor of the Exchequer presented his Autumn Budget to the House of Commons on 22 November 2017, his second budget of the year. The Chancellor announced that the government was producing the Budget against the background of preparing for exiting the EU, and, to help ensure a smooth transition, they were setting aside an additional £3 billion for government.

The Chancellor also stated that the level of public sector net borrowing was now forecast to be £49.9bn in 2017/18, reduced from £58.3bn in the March Budget. However, the forecast for the last year of the current Spending Round was for borrowing of £34.7bn, compared to £21.4bn in the March Budget, and, by 2021/22, for £30.1bn, compared to £16.8bn. He stated that borrowing was still forecast at over £20bn in the first year of the next Parliament.

The Chancellor announced initiatives across a number of themes:

- Additional measures to boost productivity, including a £1.7 billion new Transforming Cities Fund through the NPIF, launched in 2016 to improve connectivity and support jobs across England's city regions;
- Measures to increase the numbers of new homes being built and access to homes for the young and first time buyers; and
- £2.8bn of additional funding for the NHS up to 2019/20, with £0.3bn in 2017/18, £1.6bn in 2018/19 and £0.9bn in 2019/20 and additional capital funding of £3.5bn

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

Business Rates

The government announced a number of changes to business rates. The main changes announced were:

- From April 2018, CPI will be used to uprate the multiplier for business rates, rather than RPI, bringing forward the change already announced from April 2020;
- The business rates revaluation cycle will switch from five years to three years following the next revaluation. This should mean that, following the planned 2022 revaluation, the next revaluation will be in 2025;
- He confirmed that the application for a further London business rates pilot will go ahead for 2018/19; and it was confirmed in the budget papers that *"In addition to the London pilot announced in the Budget, new pilots for 2018-19 will be announced following the Department for Communities and Local Government's (DCLG) assessment of recent applications to its scheme".* (Subsequent to the budget, it was announced that the Essex wide bid for pilot status (including Southend-on-Sea) had been unsuccessful).
- There will be an extension of one-year to the £1,000 discount to business rates bills for pubs with a rateable value of less than £100,000 to 2018/19.

The proposal to move to uprating the business rates multiplier by CPI from April 2018 will see a reduction in the rate of increase from 3.9% (September RPI) to 3.0% (CPI rate).

The cost to the government of this change is reflected in the policy costings at £240m in 2018/19 and £530m in 2019/20. In the Budget papers, it states that *"Local government will be fully compensated for the loss of income as a result of these measures".*

This change should therefore be revenue neutral for local authorities for 2018/19 and 2019/20. However, it is likely that it will result in a lower Baseline Need/NNDR Baseline amount in 2020/21, which, if not compensated for, would reduce local authority resources by £0.5bn per annum. The government has not stated whether local authorities will be provided with s31 grant to compensate for the rate relief reforms; but, on the basis of past decisions, it would be expected that they would do so.

Other measures announced

Housing. The government announced that it wishes to increase the numbers of new homes being built to 300,000 per annum by the middle of the 2020s. A wide breadth of measures were announced to support this objective and these include:

- Housing Investment: the government will provide £1.1bn for a new Land Assembly Fund; a further £2.7bn to the competitively allocated Housing Infrastructure Fund (HIF) in England and a further £630m through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation. The government has also agreed a housing deal with Oxfordshire, which has agreed to bring forward for adoption a joint statutory spatial plan and commit to a target of 100,000 homes in the county by 2031, in return for a package of government support over the next five years.

- Housing Revenue Account: the government had announced that it will lift Housing Revenue Account borrowing caps for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019/20, up to a total of £1bn by the end of 2021/22. The government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.
- Intervention: the government confirmed it has begun the formal process of considering intervention in 15 areas where the local authority has failed to put an up-to-date plan in place and that it will shortly activate powers that will enable it to direct local planning authorities to produce joint statutory plans and undertake an assessment of where they should be used.
- Community Infrastructure Levy: MHCLG will launch a consultation with detailed proposals on reforms to the CIL.
- Housing First pilots: the government will invest £28m in three Housing First pilots in Manchester, Liverpool and the West Midlands, to support rough sleepers with the most complex needs to turn their lives around.

Other measures. The government has also announced:

- An extra £42m of Disabled Facilities Grant in 2017/18, taking funding available to £473m;
- An extra £45m for the Pothole Fund in 2017/18;
- A package of measures to support the continued roll out of Universal Credit;
- A national living wage of £7.83 from April 2018.

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. The Council's auditors BDO LLP issued an unqualified use of resources opinion for 2016/17, noting that

> *"Whilst the Council has identified a significant funding gap, appropriate action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.*
>
> *Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.*
>
> *Therefore we are satisfied that the Council has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure the Council remains financially sustainable over the period of the MTFS."*

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 Link Asset Services (formally Capita Asset Services) as its Treasury Management advisors. Part of their service is to provide commentary and forecast about the economy.

Link Asset Services Commentary (January 2018)

UK

The momentum in the UK economy from Q3 seems to have been maintained into Q4 with the Purchasing Manager Indices indicating quarterly growth of 0.4-0.5%. Investment intentions in surveys remain relatively buoyant. Q3 real household spending growth held steady, at levels markedly lower than in 2016, while spending on the high street has been slowing. Growth in spending on services is expected to remain firm at current levels, but private new car registrations continued to decline on an annualised basis. Employment declined in the three months to September but this has not raised any concerns as employment intention measures are still reflective of healthy employment growth. Pay growth is expected to pick up as the employment market could strengthen further. The December CPI figure was in line with forecast at 3.0% year on year, however RPI exceeded its estimate and rose to 4.1% from 3.9% previously. The Monetary Policy Committee has commented that a slow and gradual tightening of policy is under way, with a couple of interest rate increases planned for the next three years. Sterling made gains on the exchanges, helped by the expectation of increases in interest rates and investor optimism over Brexit negotiation prospects.

USA

The economy has returned the strongest consecutive quarter growth in over three years, following the 3% year on year growth in Q3 and indicators are for further strength ahead. Manufacturing output picked up in October and the ISM manufacturing index points to output growth being sustained. Consumption was more subdued in Q3 but gathered pace in the final quarter of the year. Motor vehicle spending surged in September and was strong again in October. Households do not appear to be under undue pressures with debt levels relative to income being lower than pre-crisis levels and costs of servicing debt still low. Consumer confidence is high and suggestive of increased spending growth. Survey export order indices have slipped in recent months but remain indicative of real export growth improvement, which has been helped by a general increase in global trade. Overall, analysts expect export growth to exceed imports and this means that net trade will offer some support to economic growth. The unemployment rate is at a 17 year low at 4.1%. Core inflation has started to increase, reaching 2.4% on a three month annualised basis. Underlying price pressures are building, with the depreciation of the Dollar resulting in higher import prices that will in time impact goods price inflation in 2018. Inflationary pressures coupled with stronger economic growth have raised interest rate expectations, with two rate increases now priced in by the end of 2018.

Eurozone (EZ)

There was a slowing of consumer spending growth in Q3, though annual growth was unchanged, but Q4 is expected to be stronger according to surveys. Consumer confidence improved in November, to its highest level since January 2001. This suggests that annual consumption growth could be boosted but the European Commission measure was driven by gains in France, whereas Germany saw just a slight improvement and Italy and Spain fell. Indicators point to industry and services enjoying a healthy period. The manufacturing Purchasing Managers Index improved to its strongest reading since April 2000, consistent with acceleration of production growth to an annual rate of 5%. Recovery in employment has continued with the rate of unemployment easing to 8.8% in October. At 18.6%, youth unemployment is the lowest since December 2008. Services inflation, the main contributor to core inflation, saw a gain in Germany as year on year consumer prices increased by 1.7% in December, while the Eurozone's core CPI rose by 0.9%. There has been a divergence in future interest rate expectations in the EZ and US but despite this, the Euro has strengthened against the Dollar.

Asia

In China indications are that industrial output growth has been slowing. Investment growth is lower, with capital spending contracting but investment has been underpinned by state infrastructure spending. Official consumer confidence readings have been improving since early 2016 but this does not correspond with spending levels. The labour market is healthy with jobs available to job seekers at a new record high. The large firms continue to fare better but there has been improvement in conditions for smaller businesses. There has been a slowing in export and import growth but they remain at healthy levels.

In Japan, there has been a seventh straight quarter of GDP growth with annual growth at recent highs. A decline in consumer spending was offset by stock-building and net trade having a positive impact. Services drove slowing private consumption but this weakness is not likely to continue with incomes growing at a faster pace than spending.

Summary and interest rate view

Brexit dominated the UK and European landscape with negotiations taking their time to make serious progress, though there are positive noises about the prospects. Against this backdrop there will be concerns about the further squeeze on household budgets following the UK rate increase in November. Further interest rate increases are expected over the coming months and years, but the timing of these remains uncertain.

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 Government continue to reduce the funding available from Revenue Support 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.

The Government has not offered a freeze grant in 2018/19. There has been a fundamental shift in the Government's view where it assumes local authorities will increase Council Tax by the referendum limit and for social care authorities such as Southend-on-Sea also will raise an additional amount to help fund Adult Social Care. The proposed budget includes both of these council tax increases.

The previous 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 is still being 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 saw 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. These funds were supplemented by Government in through the Improved Better Care Fund introduced in the Spending Review 2017, in recognition of the pressures on funding for adult social care. 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.

- 2015/16 also saw the introduction of the initial measures of the Care Act, principally the introduction of assessments for carers. Additional funding has been received both directly and through the Better Care Fund, which is in the middle range of initial estimates of cost. The direct funding has been rolled into the main revenue support grant. The full introduction of the Care Act has also been suspended for the life of the current Parliament.

The combined effect of the legacy of 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 Community Plan

The Sustainable Community Strategy (SCS) provided the Vision for Southend as agreed by partners on the Local Strategic Partnership (Southend Together) upto 2017. Work is underway on creating a Southend and South Essex 2050 vision, which will see an inclusivee approach to its devleopment inclusing all the previous partners that created the previous Community Plan

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 residents, businesses and wider community. The Council has begun the process of developing a fresh vision for the borough, one that will provide a strong narrative of what Southend could be like by 2050 and one which will be developed closely with stakeholders and the wider community. It is intended that the new vision will be in place by Autumn 2018

Council's Vision	**"Creating a better Southend"**
Council's 5 Aims	**Council's 15 Corporate Priorities**
Safe	To: • Create a safe environment across the town for residents, workers and visitors. • Work in partnership with Essex Police and other agencies to tackle crime. • Look after and safeguard our children and vulnerable adults.
Clean	To: • Continue to promote the use of green technology and initiatives to benefit the local economy and environment. • Encourage and enforce high standards of environmental stewardship.
Healthy	To: • Actively promote healthy and active lifestyles for all. • Work with the public and private rented sectors to provide good quality housing. • Improve the life chances of our residents, especially our vulnerable children and adults, by working to reduce inequalities and social deprivation across our communities.
Prosperous	To: • Maximise opportunities to enable the planning and development of quality, affordable housing. • Ensure residents have access to high quality education to enable them to be lifelong learners and have fulfilling employment. • Ensure the town is 'open for businesses' and that new, developing and existing enterprise is nurtured and supported. • Ensure continued regeneration of the town through a culture led agenda.
Excellent	To: • Work with and listen to our communities and partners to achieve better outcomes for all. • Enable communities to be self-sufficient and foster pride in the town. • Promote and lead an entrepreneurial, creative and innovative approach to the development of our town.

5 General Fund Services – 2018/19

The Corporate Priorities are reflected in the 2018/19 General Fund budget being recommended to Council at its meeting on 22 February 2018. It includes proposals for savings and efficiencies totalling £7.215 million to balance the budget, these are summarised below by the relevant Department:

- Chief Executive's £2,830,000
- People £3,165,000
- Place £1,220,000

The 2018/19 General Fund budget also includes:

- Ring Fenced Public Health savings of £379,000
- Inflation Allowance of £1,906,000.
- Corporate on-going Investments to reflect cost pressures of £3,775,000.

The proposals for savings and efficiencies for 2018/19 are summarised in Annex 1 and are incorporated into the Medium Term Financial Plan in Annex 3.

6 Housing Revenue Account – 2018/19

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 full convergence would be achieved.

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

Subsequent to the introduction of self-financing, the Government introduced legislation that fundamentally changed the economics of the HRA. The Welfare Reform and Work Act 2016 forces the Council to reduce rents by 1% each year from 2016/17 to 2019/20. Although government signals are that rent rises will be allowed to return to inflation linked increases from 2020/21, the four year enforced reduction in rent levels will leave the HRA generating some £3.3 M less each year than it otherwise would have.

The Government has also introduced the Housing and Planning Act 2016 which contains powers that will potentially force Councils to sell high value voids to compensate housing associations for the Government’s policy to extend the right to buy to these organisations by the imposition of a levy, and will also enforce fixed term tenancies.

However what cannot be modelled is the impact of any higher value voids levy that the government may choose to impose in future years. It is not possible to estimate the level of any levy given that the government is still running the extension of right to buy to housing association tenants as a pilot, and are funding the consequences from their own resources rather than a levy on Councils’ HRAs. Should the levy be implemented in future years, clearly it will have a detrimental impact on the finances of the HRA.

The Medium Term Financial Strategy demonstrates that the HRA is currently financially robust.

7 Asset Management Plan

The Corporate Asset Management Strategy (CAMS) 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 and updated as appropriate.

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 CAMS brings asset-related decision making (on acquisition and disposal) together with the procedures guiding investment through the Capital Programme.

The CAMS was comprehensively reviewed and updated for the period 2015 – 2025 and was approved at the Cabinet meeting in September 2015 to provide high-level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims of the CAMS that all the Council's assets are corporately held and managed strategically to:

- Support efficient and effective service delivery;
- Support regeneration and development and enable the Council to achieve its objectives;
- Rationalise, develop and improve the portfolio to underpin the capital progarmme and revenue budget through development, income generation , property acquisition and disposals;
- Actively support co-location and integration with other public-sector partners.

The CAMS also includes a property investment strategy with its own set of governance to enable investment opportunity decisions to be taken quickly against a pre-agreed set of investment performance criteria such as and including lot size, yield, property type, lease terms and covenant strength. The first acquisition under this was made during 2017-18.

The CAMS also supports the Council's high priority major projects such as, and including Better Queensway, Airport Business Park, Care and Learning Disability re-provision.

It is now appropriate that some further updates are made as follows:

- Departmental terminology and governance changes to reflect the current structure of the Council;
- To update the schedule of charges relating to property transactions;
- To reflect the revised CIPFA Treasury Management Prudential Code updates;
- To monitor the Government’s position on Commercial Property Investment;
- To update the Property Metrics section with 2015-16 and 2016-17 activity;
- To ensure that the framework is in place to move forward with recommendations arising from the space utilisation study currently underway, including facilitating the co-location of the Clinical Commissioning Group and other partners to improve collaboration, share costs and generate income;
- To clearly and more appropriately distribute responsibility for particular assets (e.g. footpaths, non-adopted roads, water-courses) to ensure these are managed efficiently in the most appropriate section of the business.

8 Capital Programme

8.1 Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services such as housing, schools and highways. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. 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, 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 main revenue Government grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available revenue resources to the Council from Council Tax, Business Rates and Government Grant.

8.2 Capital Strategy

The Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code for Capital Finance was updated in December 2017. The revised Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the authority. Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

The Capital Strategy gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The overarching objectives for the Capital Strategy are as follows:

- Demonstrating that capital expenditure and investment decisions take account of stewardship, value for money, prudence, sustainability and affordability;

- Successfully deliver a Capital Programme which is consistent with the Council's key priorities;
- Maximising external funding to support the delivery of the Capital Programme consistent with the Council's key priorities, both from the private sector and through Government grant funding;
- Maximising the utilisation of the Council's assets by:
  - Ensuring that all investment properties are making sufficient returns;
  - Ensuring that non-profitable investment properties and assets surplus to requirements are disposed of as efficiently as possible;
  - Monitoring the utilisation of assets on a regular basis.

The authority's Capital Strategy is updated on an annual basis and is approved alongside the Capital Programme. A review of the Capital Strategy has been undertaken and this is attached at Appendix 9 to the Capital Programme Report.

The Capital Strategy now explicitly includes commercial investments including the following:

- investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
- investments explicitly taken with the aim of making a financial surplus for the Council.

The Director of Finance and Resources will ensure the following:

- that the Council has the appropriate legal powers to undertake such investments;
- the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources;
- that members are adequately informed and understand the risk exposures being taken on.

The Capital Strategy includes due diligene processes with the requirement for the appropriate level of due diligence to be undertaken, with the extent and depth reflecting the level of additional risk being considered. There is also an increased emphais on risk management.

It is the Chief Finance Officer's view that the capital programme resulting from the Capital Strategy is affordable and the risks associated with it are manageable

8.3 Spending plans 2017/18 to 2021/22

The Council's proposed capital programme for 2017/18 and future years is summarised below:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total Budget £000
Approved Capital Programme (Nov 2017)	66,573	80,397	57,145	28,999	0	233,114
Reprofiles & Amendments	(2,258)	(3,581)	9,349	(3,425)	0	85
New External Funding	9	1,798	1,235	0	0	3,042
Proposed Additional Schemes	0	13,870	6,220	0	0	20,090
Current Proposed Programme	**64,324**	**92,484**	**73,949**	**25,574**	**0**	**256,331**

The following proposed scheme is subject to external funding approval:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total Budget £000
Forum II – SBC Match Funding to LGF	**0**	**500**	**1,000**	**13,500**	**3,950**	**18,950**

8.4 Funding of the Capital Programme

The proposed capital programme presented elsewhere on this agenda 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. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing and external funding 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 £70k for every £1m borrowed or if £10m 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 2018/19 to 2021/22. The 2018/19 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2018/19.

The other revenue implications of the proposed new schemes and additions to the Capital Programme are summarised below:

- Commercial Property Investment – the rental Incomes to at least cover the financing costs;
- Children's Residential Provision – placement savings of £80,000 p.a. from 2019/20 from a combination of children's residential care, part time placement and respite placements;
- Income Management System – increase in annual support and maintenance costs of £20,000 p.a. from 2019/20;
- New Artists Studios – rental income form the project for Beecroft Art Trust, which will first repay the capital reserve investment from the Council;
- Manor Road Cliff Stabilisation – £5,000 p.a. saving in footway maintenance;
- Flood Prevention Works - £10,000 p.a. maintenance costs for the pumping station.

In summary, it is the Chief Financial Officer's view that the 2018/19 to 2021/22 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 prudence, affordability and sustainability.

9.2 Borrowing

The Council must set an operational boundary and authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities. The operational boundary is how much gross 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 2018/19 to 2020/21 are shown in the table below:

Operational boundary	***Estimate 2018/19 £000***	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Borrowing	284,500	299,500	304,500
Liabilities outstanding under credit arrangements	500	500	500
Total	**285,000**	**300,000**	**305,000**

Authorised limit	***Estimate 2018/19 £000***	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Borrowing	294,500	309,500	314,500
Liabilities outstanding under credit arrangements	500	500	500
Total	**295,000**	**310,000**	**315,000**

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 2018/19 to 2020/21 are:

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
General Fund	276,244	305,975	311,151
Housing Revenue Account	98,740	98,740	98,740
Total	**374,984**	**404,715**	**409,891**

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 Minimum Revenue Provision

The Council is required by statute to make a charge to its General Fund to provide for the repayment of debt resulting from capital expenditure, known as the Minimum Revenue Provision (MRP). Our Treasury Management advisers, Link Asset Services, have undertaken a full review of the historic MRP liability and its implication for the current and future liability. Link put forward a range of options to revise historic MRP calculations and to amend the current and future MRP policy. The Chief Finance Officer considered these options and a revised MRP policy for 2017/18 and prior years was approved at the Council meeting in December 2017.

The MRP for capital expenditure financed by historic supported borrowing is now calculated on a 2% straight line basis. The previous method of calculation was to multiply the CFR at the end of the preceding financial year by 4%.

The MRP for capital expenditure financed by prudential (unsupported) borrowing is now calculated using the annuity method. The previous method of calculation was equal instalments over an estimated useful life.

As well as being applied to the current year, the changes have been applied retrospectively for the years 2016/17 and prior as appropriate and it is planned that they will be applied in future years. The MRP policy for 2018/19 is included as part of the suite of budget reports being considered as part of this agenda.

The application of the revised MRP policy to 2018/19 onwards has generated a revenue budget saving of £2.1million which is included in the Savings Proposals 2018/19 included elsewhere on this agenda.

The application of the revised MRP policy to 2017/18 is expected to generate an underspend against budget and allow a contribution to the capital reserve to be used to finance future capital projects.

The application of the revised MRP policy to 2016/17 and prior years as appropriate has identified an overprovision of MRP that will be used in 2017/18 and future years to reduce the MRP charge and will result in a contribution to a newly created MRP equalisation reserve. This reserve will be used in future years to smooth the increases in MRP provision in the MTFS to aid future budget planning.

9.4 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

It is projected that surplus cash balances will average £70m (of which £38m is the estimated sum of medium and long term funds managed by external fund managers) during 2018/19 based on information currently available and historical spending patterns.

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.

9.5 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 gradually increasing interest rates but still at low levels and consequently low investment income earnings. Based on economic forecasts it is very difficult to predict the timing of any increase in interest rates, however it has been assumed that during 2018/19 the bank base rate will increase from 0.5% to 0.75%. The average interest earned by the Council on its in-house lending is likely to be 0.65% but this does depend on market conditions.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £160k in external interest earned and a difference of £1m in average balances would make a difference of £7k 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 Director 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 17 January 2018:

- **Setting a Balanced Budget for 2018 - 21** - Risk that the scale of predicted funding reductions for 2018-21 budgets will result in significant adverse impact on council services

- **Recruiting and retaining staff** - Risk that failure to retain or recruit staff with the required skills and experience will result in an inability to deliver key projects or services to meet expectations of residents, members, businesses and partners.

- **Key External Challenges** - Risk that the impact of, or a failure to take advantage of, a new Government agenda, changes to senior personnel and the lead up to Brexit may hamper the ability of the Council to achieve key priorities

- **Housing Policy** - Risk that changes to government housing policy (such as selling off high value council properties) and increasing levels of housing need (notably homelessness) results in further significant pressure on council budgets.

- **Local Infrastructure** - Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough.

- **Alternative service delivery models** - Risk that failure to effectively manage (staffing, relationships, contracts) the transition to alternative service delivery models results in the organisation not meeting its statutory responsibilities to residents/customers.

- **Health and Social Care Integration** - Risk that failure to integrate health and social care effectively (inc Pioneer, Better Care Fund and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and council finances.

- **Contract Management** - Risk that failure to embed effective contract management, combined with contract price inflation, across the authority will result in a loss of value for money, saving opportunities and/or quality of service provision.

- **Secondary School Places** - Risk that failure to provide the required number of school places at secondary schools for 2018 and 2019 will lead to significant reputational and legal damage for the Council.

- **Flooding / Cliff Slip** - Risk that surface water flooding, breach of sea defences and/or seafront cliff movement will result in damage to property and infrastructure as well as significant disruption.

- **Information Management** - Risk that a failure to ensure the Council has a coherent and comprehensive approach to Information Management, and is sufficiently prepared for the General Data Protection Regulation (GDPR), will result in significant financial and reputational damage to the Council.

- **Ofsted joint inspection** - Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection.

- **Waste Management** - Risk of contractor failing to meet contractual requirements to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.

- **Healthy Lifestyles** - Risk that continued pressure on the health system including Public Health funding results in a failure to adequately address lifestyle behaviours and reduce health inequalities.

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 (Director 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 2018/19 to 2021/22;

ii) An optimal level of reserves of £10 million over the period 2018/19 to 2021/22 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 2018/19 to 2021/22 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 2018/19 to 2021/22.

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 2018/19 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.

This recommendation is based on and conditional upon

- A 2018/19 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with a MTFS

- Forward projections for the HRA beyond 2018/19 are being remodelled. In addition, this is linked to the HRA's own Medium Term Financial Strategy for the period 2018/19 to 2021/22.

- Recognition is made of the potential for a Levy payment in respect of higher value voids.

11.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2017 to 31 March 2022 are shown in Annex 2. The balances at 31 March 2018 to 2022 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 of its main grant (formerly Formula Grant) is now the third ranked provider of funding for the Council's total general fund budget (excluding schools) after Council Tax and Business Rates. As such it represents a vastly reducing factor in determining the Council's revenue budget. The provisional Local Government Finance Settlement for 2018/19 was issued by the Department for Communities and Local Government (DCLG) on 19 December 2017 and this represents the Government's next two year spending plans. The final Local Government Settlement is due to be announced in February 2018, the actual date has not yet been announced at the time of writing this report. Therefore, this report is based upon data in the provisional finance settlement.

The latest Finance Settlement maintains the key changes in the way that Local Government is now financed, which were 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 Revenue Support Grant (RSG) allocation and confirmation of Business Rates top up grant.

A key change in the 2016/17 settlement was the Government's recognition of the demand and demographic expenditure pressures on Adult Social Care and the ability for Local Authorities to implement an Adult Social Care precept of up to 2% to support the growing expenditure on Council budgets in this area.

The Adult Social Care precept is confirmed to continue, however, last year the Government introduced a flexibility to the precept in that the maximum 6% increase allowed over the three years (2017/18 to 2019/20) can be applied in any of the three years as long as the precept did not exceed an additional 3% in 2017/18 2018/19 and an additional 2% in 2019/20.

Additionally, the 2016/17 settlement introduced a minimum RSG settlement for 4 years up to 2019/20. This was conditional upon the Council submitting an Efficiency Plan by 14 October 2016, which was duly submitted by the due date. DCLG has confirmed acceptance of the Council's efficiency plan and therefore to its entitlement of a guaranteed minimum sum of RSG.

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

- The provisional Settlement Funding Assessment (SFA) (a combination of actual RSG and estimated business rates income) for 2018/19 is £44.269 million. This compares to an adjusted SFA of £47.642 million in respect of 2017/18 (a reduction of £3.373 million and equivalent to a 7.1% reduction);

- The RSG element for 2018/19 within the provisional SFA is £10.318 million. This compares to an adjusted RSG of £14.681 million in respect of 2017/18 (a reduction of £4.363 million and equivalent to a 29.7% reduction);

- The settlement provides indicative figures for a two year period (2018/19 to 2019/20);

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

- As last year there is no Council Tax freeze grant offered by the Government this year;

- The 2018/19 referendum limit for Council Tax increases has been announced at a level of 6%, being 3% for expenditure on adult social care and 3% for other expenditure (2017/18 this was set at 5%, being 3% and 2% respectively);

- A review is to be undertaken of the relative needs and resources of Local Authority's to provide an updated and more responsive distribution methodology of remaining Government funding. The results of the review will be introduced in 2020/21 to coincide with the move to 75% Business Rates Retention in the same year;

- For 2018/19, funding to support social care and benefit health is being continued through the Better Care Fund (BCF); a pooled budget between the Council and Southend Clinical Commissioning Group (CCG). The settlement for 2017/18 was a two year settlement to enable both the local authority and CCG to better plan future activity. The Council's share of the BCF for 2018/19 is expected to be £5.859 million for revenue services plus £1.406 million for disabled facility grants;

- In addition, as announced in the 2015 Spending Review, the Council is also due to receive the next tranche of a new "improved" BCF directly through a S31 grant to further assist with the inherent pressures in adult social care. The indicative sum for 2018/19 is £5.429 million;

- Working against the increase in Adult Social Care Precept and Better Care Fund resources, the Government have confirmed the loss of the one-off £828,000 Adult Social Care grant received last year;

- There was a national revaluation of business rateable values on 1 April 2017. Nationally the revaluation has resulted in a net increase of RV's, although some areas and some business types have seen reductions. The Government intended to change the basis of determining the annual increase in the business rate multiplier in 2020/21 but has now brought this change forward to 2018/19. Essentially this means the multiplier increase is based on the CPI inflation figure rather than the RPI at September each year. The September 2017 CPI was 3.0% rather than the RPI at 3.9%. Local Authority's will be reimbursed the 0.9% difference through a S31 grant. Therefore, the provisional small business non-domestic rates multiplier has been set at 48.0p (2017/18=46.6p) with the associated non-domestic multiplier has been set at 49.3p (2017/18=47.9p);

- Non-domestic rates are set nationally by the Government and collected locally by Councils (billing authorities). Under the current 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 Government has also announced that they will not proceed with their intention of moving to 100% business rates retention but to now move to 75% business rates retention for Councils for 2020/21. To enable this switch to occur this will see the removal of the Public Health grant and adjustments to the final elements of Revenue Support Grant;

- The Public Health service grant allocation for 2018/19 has been notified as £9.462 million (a reduction of £0.25million on 2017/18). Additionally an indicative allocation of £9.212 million has been announced for 2019/20 (a further reduction of £0.25 million on 2018/19);

- The consultation on the provisional finance settlement ended on 16 January 2018. The actual timing of the final announcement has yet to be announced, but would normally follow shortly after the consultation period has ended. The provisional settlement does refer to February for the final settlement. A verbal update will be given to Cabinet on any further information surrounding the final finance settlement and any implication on the setting of the Budget.

13.2 Dedicated Schools Grant (DSG)

2018/19 sees the introduction of the Government's National Funding Formula (NFF) as the methodology for distributing national resources down to each education authority. That methodology sees the introduction of a four block model.

- Schools Block
- High Needs Block
- Early Years Block
- Central School Services Block

The DSG allocation is released in late December, based on information provided through the previous October schools census. However the Early Years allocation is an estimate, as this ultimately is based on actual participation rather than a fixed budgetary amount.

The total DSG for 2018/19 is £147.7 million (latest allocation for 2017/18 = £143.7 million). In practice the final DSG will exclude funding for Academies and is estimated to reduce by at least £90.9 million to £56.8 million.

In addition to funding from the DSG, schools will receive Pupil Premium grant, which will provide £1,320 / £935 of funding per primary/secondary pupil who have been registered for free school meals in any of the past 6 years. These rates are unchanged from 2017/18. Based on estimates the Pupil Premium will provide an additional £7.8 million for schools in Southend-on-Sea (both Maintained and Academy schools).

13.3 Council Tax

There is a 4.49% increase in Council Tax for 2018/19 (including 1.5% for adult social care). For planning purposes an increase of 4.49% has been assumed for 2019/20, and 1.99% thereafter.

For 2017/18 Southend-on-Sea Borough Council had the fifth 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.

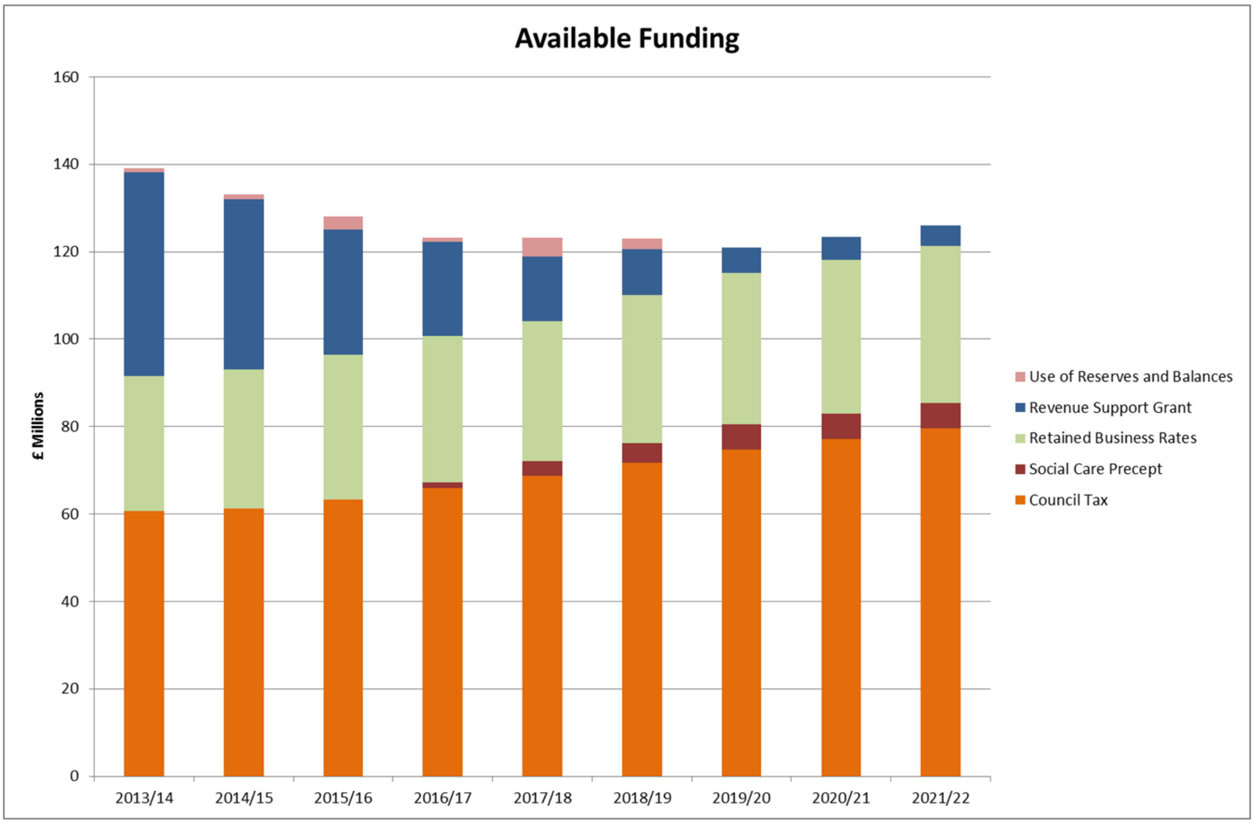
As an indicative guide, for Southend Borough Council every increase of 1% raises £730k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

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 2018/19 is 57,611.55 (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.

13.4 Total Available Funding

Total available funding continues to decline over the timeframe of the MTFP, with the reduction in Revenue Suppoirt Grant overshadowing the modest increases in Business Rates and Council Tax.



14 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2018/19 to 2021/22 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 2.99% for 2019/20, in line with the government's modelling, then 1.99% each year from 2020/21. In addition it is assumed that the allowable 2019/20 increase in the social care precept to support Adult Social Care will also be implemented. It is assumed that no further increases in the social care precept will be allowed thereafter.

- **Revenue Support Grant** – the final figure for 2018/19 has yet to be announced. The MTFS therefore uses the provisional settlement for 2018/19, and the provided indicative settlement for 2019/20. Although it is likely that all RSG will be subsumed into 75% business rates retention from 2020/21, in the absence of any other information, notional figures have been calculated by our advisors LG Futures of the amounts the Council would receive if the system were not changed. The amounts for 2020/21 and 2021/22 are highly likely to change

- **Business Rates** – the figure for 2018/19 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. The local element is assumed to grow by 2.0% from 2019/20. Although it is likely that business rates will move to 75% rates retention from 2020/21, in the absence of any other information, notional figures have been calculated by our advisors LG Futures of the amounts the Council would receive for business rate top-up grant if the system were not changed. The amounts for 2020/21 and 2021/22 are highly likely to change

- **Support from Collection Fund** – a surplus has been declared for 2018/19, based on the level of accumulated surpluses. This is a prudent view based on Council Tax increases 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. No surplus has been assumed for 2019/20 onwards.

Inflation and Fees & Charges

- **Pay award** – there is assumed to be an increase of 2.0% in 2018/19 and future years. This is based on the current employers offer covering 2018/19 and 2019/20, and an assumption that this high pay inflation will become the new norm in future years.

- **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 financial impact of the last triennial actuarial valuation, as at 31 March 2017, has been built into the MTFS. The next valuation will be as at 31 March 2020. Provision has been made for the potential financial impact in 2020/21.

- **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.

BCF / iBCF Funding

The MTFS uses the amounts announced in the provisional financial settlement for iBCF for 2018/19 and 2019/20. Beyond that it is assumed that the level of iBCF will be frozen. Similarly there is no certainty of the amounts available through the BCF arrangements with Southend CCG beyond 2018/19. Therefore the MTFS assumes future years remain unchanged.

Public Health Funding

The MTFS anticipates the continued reduction in the Public Health Grant in 2019/20, matched by a consequential reduction in spend. Although it is likely that all Public Health Grant will be subsumed into 75% business rates retention from 2020/21, in the absence of any other information, it is assumed that the same level of funding will be embedded into the new system. The amounts for 2020/21 and 2021/22 are highly likely to change

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.

Schools

No change in the DSG has been assumed as the Government are considering moving to a new national funding formula for schools.

14.2 Sensitivity analysis

The effect of changes to these assumptions on the budget gap for 2019/20 and on the Council Tax, are shown in the following table:

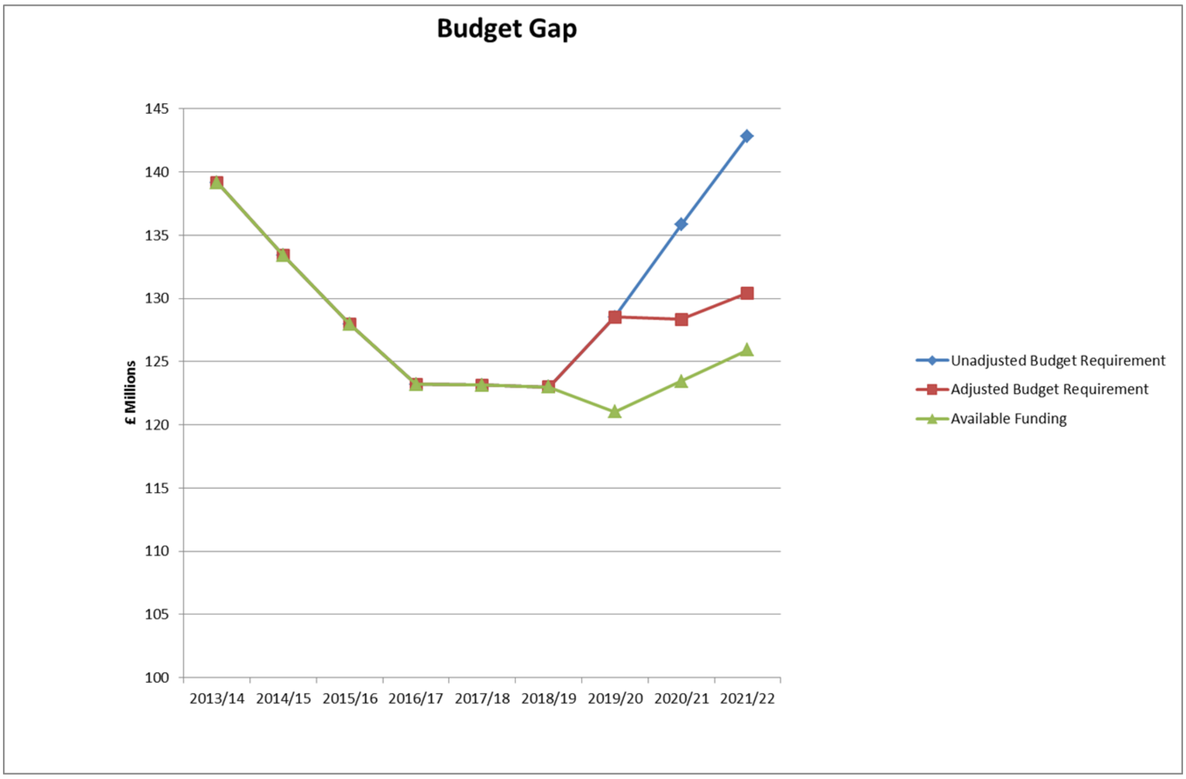
Assumption in MTFP for 2019/20	**Change in assumption**	**Effect on the budget gap for 2019/20**	**Effect on Council Tax**
Council Tax increase of 2.99%	No Council Tax increase	Increase of £2,301k	
Revenue Support Grant as per estimated settlement (42.6% reduction on 2018/19)	Formula Grant decreased by 50%	Increase of £766k	Increase of 1.1%
Retained Business Rates growth at 2.0%	Retained Business Rates growth at 1%	Increase of £219k	Increase of 0.3%
2% pay award	Pay award of 3%	Increase of £650k	Increase of 0.9%
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 0.6%
100% of identified on-going savings of £7.2M will be achieved in 2018/19	95% of identified on-going savings of £7.2M will be achieved in 2018/19	Increase of £360k	Increase of 0.5%

14.3 Financial Planning 2018/19 to 2021/22

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 2018/19 has been closed by a combination of the proposed savings totalling £7.215 million and use of £2.500 million collection fund surplus as set out in Annex 1. The budget gaps remaining for the financial years 2019/20 to 2021/22 are set out below:

	2018/19	2019/20	2020/21	2021/22	Total
Remaining budget gap	£0m	£7.5m	£4.9m	£4.5m	£16.9m
Budget gap as a % of the 2018/19 net budget requirement	0%	6.1%	4.0%	3.7%	13.7%

The Medium Term Financial Plan assumes that each year's budget gap is closed, so that each year's budget requirement is contained within available funding.



14.4 2019/20 and Beyond

In addressing the national economic situation the Government has continued to emphasise the need to look further at a programme of public sector spending restraint and reconfiguration. This was reinforced in the Chancellor's Autumn Budget Statement on 22 November 2017 with further restriction placed on the Government's public spending plans up to 2021 with the commitment to its departmental spending plans set out in the Spending Review 2015. The tightening and reduction of Government funding contributions to local government funding along with the Government's previous changes from April 2013 and the proposed changes for the funding of Local Government, means that the current financial challenges for 2019/20 and beyond will continue. This needs to be seen as part of a continued period of financial retrenchment that Local Government has already encountered and that councils will need to consider a much longer spending reduction programme than previously identified by Central Government and which also links into the impending need for Council's financial self-sustainability.

This report predominantly addresses, as we are required to do, a detailed budget for 2018/19 but it is also appropriate to identify the areas the Council should continue to explore in order to meet the budget constraints of future years and also tailor the services it provides and review its role within national policy and local circumstances. As we develop the Councils vision 2050 and the South Essex vision 2050 we need to be mindful of how we align and prioritise our resources to achieve these visions but also ensure we focus on delivering our required outcomes.

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 national fiscal situation the Council has striven to sustain its full range of services but it is increasingly likely that this approach will be unviable.

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 continue to 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.

The Council will also seek to explore innovative income generation opportunities that will assist with increasing the Council’s revenue sources to assist with bridging the significant budget gap the Council has to deliver. In addition, there is the intention to look greater at commercial opportunities for services of the Council. Both will assist in supporting the financial self-sustainability of the authority as we move into a period of final withdrawal of central government funding.

Given the financial challenge we have and are to continue to face for a number of years, a continued programme of corporate working 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 savings that will be required over this period. A recent corporate transformation review is identifying how the council can work differently and transform services in an efficient manner whilst also delivering key savings for the annual budget.

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 arising from the Autumn Budget Statement in late 2017, that further savings in the order of £17 million will be required from the Council’s circa £218 million annual gross budget (after excluding Schools, HRA and Benefits) for the three years 2019/20 to 2021/22.

It is clear that the budget savings presented for 2018/19 cannot be continually 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.