Appendix 14

MEDIUM TERM FINANCIAL STRATEGY 2019/20 to 2023/24

February 2019

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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 Southend 2050 ambition, five year roadmap and desired outcomes.

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 five 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 investment 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 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 potentially 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 actual quantum of funding to be distributed will be set by SR19, and it is unknown whether this will be set at a level sufficient to meet the combined needs of local government.

This MTFS therefore incorporates the remaining 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 MTFS must be viewed very much as provisional thoughts on the potential outcomes from the Local Government Funding review based on best knowledge 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 Southend 2050 Ambition and Roadmap, the Medium Term Financial Strategy and Plan, the Capital Investment Programme and the annual Revenue Budget. Individual Outcome Plans sit beneath the overarching Southend 2050 Ambition and Roadmap.

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 Southend 2050 ambition and road map and associated outcome 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 the roadmap and outcome plans. Through a series of iterations, within the overall constraints of available resources, the financial plans are brought into alignment with the Southend 2050 Ambition.

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					

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 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 Budget 2018 to the House of Commons on 29 October 2018 which he introduced promising "the era of austerity is finally coming to an end". With the final terms of the departure of the UK from Europe yet to be settled, the Chancellor signalled that a further Budget may be required should this departure be made without a formal deal.

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

- £45m of additional funding for Disabilities Facilities Grant in 2018/19;

- £420m in 2018/19 to tackle pot holes and other minor road highways works;

- £400m of in-year capital funding allocations to schools in 2018/19;

- £650m of extra Social Care funding for English Local Authorities in 2019/20;

- An additional £84m of Children's Services funding over 5 years, but across only 20 councils;

- For two years up until the next Revaluation in 2021 all retail premises with an RV below £51,000 will have their bills reduced by one third; on past precedent it would be expected that Local Authorities will be to be compensated for this measure through s31 grant;

- £675m of co-funding will be provided through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;

- Additional funding for the Housing Infrastructure Fund of £500m will be provided;

- It is expected that Public Sector Debt will decline from a peak of 85.2% of GDP in 2016/17 to a forecast of 74.1% in 2023/24 and that public sector borrowing will be £19.8bn in 2023/24, (lowest level for 10 years);

- Therefore, and re-emphasising that "austerity is coming to an end", for the period of the next Spending Review it is projected that there will be an average real terms increase in annual Resource Departmental Expenditure Limits (RDEL) over the 5 years of 1.2%, per annum. This compares to an average of -3.0% during the period of SR2010 and -1.3% during the period of SR15; and

- The government will abolish the future use of PFI and PF2, saying there is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.

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 2017/18, 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, while there is a recognised funding gap in the MTFS, 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 it 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 as its Treasury Management advisors. Part of their service is to provide commentary and forecast about the economy.

Link Asset Services Commentary (December 2018)

UK

Analysts suggest that the economy will expand by just 1.3% over the calendar year, which would be the weakest since the financial crisis. The hot summer boosted household spending to more than offset weaker car sales in Q3, but that is not expected to be sustained. The British Retail Consortium indicates a sharp slowing of high street sales growth. Brexit uncertainty remains a drag on spending decisions, with November consumer confidence falling to the lowest level since 2013.

The full Q3 trade deficit of £2.3bn was the smallest quarterly deficit for five years, as the September deficit came in at nearly zero. Net trade offered a healthy contribution to Q3 growth on strong export growth against near flat import growth. Recent export strength may not continue as the post-Brexit benefit of sterling weakness dissipates.

A dip in part time work was in part offset by increased full time employment in September which left total employment slightly higher. Annual employment growth improved to 1.1% and surveys indicate that steady growth should continue. It comes as the numbers of non-UK workers is on the decline, which has seen employers competing for workers, reflected by an increase in pay growth to the fastest rate in ten years, with survey indicators in line with current 3.25% growth being maintained.

CPI inflation was unchanged at 2.4% in October as rising energy costs offset declining imported inflation. Core inflation remained just below 2%. Imported inflation is likely to continue to reduce, while falling oil prices in recent months will see the fuel impact on inflation weaken. As a consequence, forecasters expect inflation to move back towards the 2% level.

USA

Q3 GDP growth slowed to 3.5% annualised. There was a slight improvement in consumption but a sharp decline in business investment growth and further slowing of GDP is forecast. There was a marginal pick up in industrial production, which was held back by mining and utilities. Underlying manufacturing output growth remains buoyant but the strength of the US$ and slower global growth will weigh on the sector in time.

The last effects of the tax cuts earlier in the year, along with rising wages, have supported consumption growth, which ran at 4.7% annualised in Q3. But signs of slower Q4 growth are indicated by weakening underlying retail sales. Building materials and auto sales were boosted in the wake of recent hurricanes, while falling oil prices have given household purchasing capabilities, which may help consumption to regather some momentum. Consumer confidence remains high, which could encourage people to spend this available money.

The unemployment rate was unchanged from the 49 year low 3.7%. Gradual gains in wage growth are being generated, with base effects boosting the annual rate of average hourly earnings growth at a near ten year high 3.1% and analysts believe that there are further gains to come.

Consumer price inflation increased to 2.5% due to higher energy prices, but falling oil prices will pare back inflation to year end, and possibly beyond. The strengthening of the US$ is helping to lower prices of imports, with the potential for a period of negative import price inflation. Tariffs on Chinese goods are not expected to hugely impact on domestic prices as Dollar strength partly offsets the costs so the net effect has been absorbed into margins. Growth in unit labour costs is muted and inflation expectations are low, thus a significant breach of the Fed’s 2% inflation target is unlikely in the near term.

Eurozone (EZ)

GDP growth in the bloc slowed in Q3, on temporary factors such as disrupted car production in Germany and there has been a downtrend on the Purchase Manager Indices which reflects broad-based slowing. The Economic Sentiment Indicator is more optimistic and, despite an eleventh consecutive dip, is consistent with annualised GDP growth of 2% in Q4.

So far, Q4 has seen healthy consumer activity and the coming months look similarly bright. Car registrations rose by 9% month on month, after falling the previous month on the introduction of new emission standards, and increases should continue as the effect fully unwinds.

A decline in exports and stable imports pulled the EZ trade surplus lower and the concerns about the global economy offer little optimism for exporters. The rise of export/import values has stalled and looks set to turn around, with expected falling energy prices likely to reflect slower import value growth. A sharper correction is seen for exports, with slowing in both the US and China likely, so net trade may offer no contribution to 2019 GDP growth.

Though the decline in the rate of unemployment appears to have stalled at 8.1%, further falls are expected. Q3 annual employment growth slowed to 1.3%. However, employment intention indicators show that a pick-up in growth should resume, which will pull the unemployment rate lower and increase wage pressures, up to around the 3% level. Wage increases will, though, not be region wide with labour shortages in Germany and France likely to see larger more marked gains than in Italy and Spain where unemployment rates are rather higher.

Falling oil prices and slower activity increases the downward pressure on inflation, with the headline rate falling to 2.0% in November. Weaker energy inflation is set to impact for some months to come. Core inflation was also lower at 1.0%. Weaker EZ data releases and concerns about growth going forward have weighed on the €uro, but in relative terms the bloc's performance may prove stronger than the US in 2019, while any heightened interest rate expectations will further underpin the currency. Meanwhile, equity markets face a tough period and are likely to track those in the US lower.

China

Official figures show that there was a slight slowing of GDP growth in Q3 but growth has held up reasonably well compared to the sharper slowing at the end of 2017. Growth in construction is also supportive, helped by an increase in infrastructure spending, which has outweighed weaker property investment.
There has been a slowing in retail sales growth and other indicators point to household spending weakening. Car sales were markedly lower than the same month last year. Official wage growth figures have been stable for some time but the employment component of the Purchase Managers Indices has been on a downward trend.

The official manufacturing PMIs indicate some loss of momentum and there has also been weaker demand for bank lending. Despite imposed tariffs, exports and imports have proved fairly resilient in recent months, with exports to the US faring broadly as they have to other economic areas. Despite everything, the goods trade surplus with the US is still at near record highs, while that with the EZ is stable, but trade with the rest of the world is now running at a deficit.

After a slight dip in early 2017, there has been a steady increase in consumer price inflation since. Weaker future fuel price inflation will pull consumer and producer price inflation lower. Meanwhile, core inflation has been on a downtrend since late last year.

The Renminbi has been subject of official support, to stabilise it against the US$. Unlike previous times the Peoples Bank has been using its currency reserves to effect the necessary market movements. The escalation in the US trade dispute, along with domestic weakening have had a negative impact on equities, with the Shanghai Composite index down nearly 20% on the year, with all sectors affected, though industrials have been hit hardest.

Summary and interest rate view

In the UK the interest rate view remains influenced by the ongoing uncertainty surrounding a Brexit deal with the EU. The Bank of England gives all the signs that the Monetary Policy Committee would like to increase rates but will hold back until Brexit situation and its impact becomes clearer.

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 2019/20. 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 five financial years.

3 Southend 2050 Ambition and Road Map

3.1 Southend 2050

Southend 2050 is a mind-set rather than one single publication or statement. It looks to translate the desires of local people and stakeholders into action that is needed, both now and in the medium term, and looks to the long term. It comprises the Council's ambition, associated outcomes by theme that set the context, a Five Year Road Map and a suite of other delivery plans, strategies and policies that fit the context of Southend 2050.

The ambition is an overarching view of the Council's future direction which aims to articulate the visible changes to the environment and the more fundamental effects on people's lives, essentially capturing how it could feel to live, work or visit Southend in the future. It was developed following extensive conversations with those who live, work, visit, do business and study in Southend. The ambition complements the Essex 2050 vision, The Future of Essex developed by Essex wide stakeholders and the emerging South Essex 'proposition', titled 'What sort of place are we making?' This is being developed by South Essex local authorities who are collectively looking to the future.

This ambition is supported by five themes:

- Theme 1: Pride and Joy – by 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer;
- Theme 2: Safe and Well – by 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives;
- Theme 3: Active and Involved – by 2050 we have a thriving, active and involved community that feel invested in our city;
- Theme 4: Opportunity and Prosperity – by 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people;
- Theme 5: Connected and Smart – by 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure.

As steps towards that ambition the Council will agree five year roadmaps. The road map outlines the Council's role in achieving the ambition and provides a high level guide for Councillors, staff, partners and others in aligning their capacity and resources to priorities. It builds on our existing achievements and outlines what the Council wants to achieve in the coming five years. There will be five strategic delivery plans, one per theme reflecting the road map. These will be supported by delivery plans which reflect our ambition and which focus on achieving desired outcomes in five years' time:

3.2 Pride and Joy

- There is a tangible sense of pride in the place and local people are actively, and knowledgeably, talking up Southend-on-Sea;
- The variety and quality of our outstanding cultural and leisure offer has increased and we have become the first choice English coastal destination for visitors;
- We have invested in protecting and nurturing our coastline, which continues to be our much loved and best used asset;
- Our streets and public spaces are clean and inviting.

3.3 Safe & Well

- People in all parts of the borough feel safe and secure at all times;
- Southenders are remaining well enough to enjoy fulfilling lives, throughout their lives;
- We are well on our way to ensuring that everyone has a home that meets their needs;
- We are all effective at protecting and improving the quality of life for the most vulnerable in our community;
- We act as a Green City with outstanding examples of energy efficient and carbon neutral buildings, streets, transport and recycling.

3.4 Active and Involved

- Even more Southenders agree that people from different backgrounds are valued and get on well together;
- The benefits of community connection are evident as more people come together to help, support and spend time with each other;
- Public services are routinely designed - and sometimes delivered - with their users to best meet their needs;
- A range of initiatives help communities come together to enhance their neighbourhood and environment;
- More people have active lifestyles and there are significantly fewer people who do not engage in any physical activity.

3.5 Opportunity and Prosperity

- The Local Plan is setting an exciting planning framework for the Borough;
- We have a fast-evolving, re-imagined and thriving town centre, with an inviting mix of shops, homes, culture and leisure opportunities;
- Our children are school and life ready and our workforce is skilled and job ready;

- Key regeneration schemes, such as Queensway, seafront developments and the Airport Business Park are underway and bringing prosperity and job opportunities to the Borough;
- Southend is a place that is renowned for its creative industries, where new businesses thrive and where established employers and others invest for the long term.

3.6 Connected and Smart

- It is easier for residents, visitors and people who work here to get around the borough;
- People have a wide choice of transport options;
- We are leading the way in making public and private travel smart, clean and green;
- Southend is a leading digital city with world class infrastructure that enables the whole population.

The aims, priorities and objectives of delivery plans will align with the ambition and desired outcomes. Accordingly resources will be prioritised and reallocated to deliver the Five Year Road Map. All revenue and capital resources will therefore be driven by the aim of contributing to the delivery of the ambition and the desired outcomes. This Medium Term Financial Strategy has been written in this context.

4 General Fund Services – 2019/20

The Southend 2050 ambition and road map are reflected in the 2019/20 General Fund budget being recommended to Council at its meeting on 22 February 2019. It includes proposals for budget reductions and efficiencies totalling £4.113 million to balance the budget, these are summarised below by theme:

Area of budget reduction	**£'s**
Income – Commercial Activities *Arising from commercial acquisition of investment assets and exploitation of others*	455,000
Income – New / Additional *Arising from the growth in asset rentals and investment income*	350,000
Transformation *Arising from locality working and community engagement, and the emphasis on preventative work*	2,025,000
Staffing Restructures	635,000
Procurement Efficiencies	280,000
Budget Reductions	**3,745,000**
House Keeping Efficiencies	368,000
Total Proposed budget reductions	**4,113,000**

In additon there are ring fenced Public Health savings of £250,000.

The 2019/20 General Fund budget also includes on-going investment in services totalling £6.610 million as follows:

Area of Investment	**£'s**
Community Safety *Addressing in particular permanent staffing for the Community Safety Hub*	385,000
Health & Well Being *Reflecting loss of housing benefit grant and outdoor sports income*	280,000
Children & Lifelong Learning *Particularly addressing cost pressures in children's social care*	2,338,000
Adult Services *Particularly addressing demographic pressures and the on-going impact of the national living wage, together with investment in transformation work*	3,362,000
Staffing Capacity *Addressing in particular the need to invest in staffing to fully exploit the potential of "MySouthend"*	245,000
Total Proposed Investments	**6,610,000**

5 Housing Revenue Account – 2019/20

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 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. Although the legislation has not been recinded, the Government has signelled that it has no intention of using these provisions.

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

The Council has concluded a procurement exercise to chose a partner organisation with which to regenerate the Queensway estate. That regeneration will see the existing 441 predominately council owned homes redeveloped into a vibrant, mixed tenure community with enhanced public realm and facilities. It will however mean that overtime the estate will no longer be part of the HRA. The timing of the regeneration and asset transfer to the proposed partnership is not set.
In addition South Essex Homes Ltd has been commissioned to produce an up to date stock condition survey, that will enable a fuller understanding of the investment necessary to maintain the existing housing stock to decent homes standards.

The HRA MTFS does not currently take either of these developments into account in a detailed manner, although some provision is made. It will be necessary to update the HRA MTFS once more detail is available.

6 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 Investment 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.

Some further updates will be made during 2019/20 as follows:

- Departmental terminology and governance changes to reflect the current structure of the Council;
- Updates to reflect the 2050 roadmap, methodology for the prioritisation and decision making process around Council assets with associated governance;
- 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 2016/17 and 2017/18 activity;
- To ensure that the framework is in place to move forward with recommendations arising from the space utilisation study currently underway 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.

7 Capital Investment Programme

7.1 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.

Unsupported borrowing is not specifically financed by capital grant so any unsupported borrowing undertaken is financed from the total available revenue resources to the Council from Council Tax, Business Rates and Government Grant.

7.2 Capital Investment Strategy

Each year the Council agrees a Capital Investment Strategy that sets out the framework for controlling and monitoring the Capital Investment Programme. The Capital Investment Strategy is a key document for the Council. It sets out the processes and policies relating to capital expenditure and investment and includes reference to other key documents of the authority which influence capital investment such as the Medium Term Financial Strategy (MTFS) and the Corporate Asset Management Strategy (CAMS).

The capital investment programme is prepared and developed in accordance with the Council's Capital Investment Strategy. In turn, the Capital Investment Strategy has been written in the context of Southend 2050 and the five themes and all capital investment is therefore driven by the aim of contributing to the delivery of the ambition and the desired outcomes.

The overarching objectives for the Capital Investment Strategy are as follows:

- Successfully delivering a Capital Investment Programme which contributes to the Council's ambition and desired outcomes;
- Demonstrating that capital expenditure and investment decisions take account of stewardship, value for money, prudence, sustainability and affordability;

- Maximising external funding to support the delivery of the Capital Investment Programme consistent with the Council's desired outcomes, 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 Investment Strategy is updated on an annual basis and is approved alongside the Capital Investment Programme. A review of the Capital Investment Strategy has been undertaken and this is attached at Appendix 2 to the Capital Investment Programme Report.

The Capital Investment Policy 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 Strategic Director (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 Investment Strategy includes due diligence 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 investment programme resulting from the Capital Investment Strategy is affordable and the risks associated with it are manageable

7.3 Spending plans 2018/19 to 2023/24

The Council's proposed capital programme for 2018/19 and future years is summarised below:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Approved Capital Investment Programme (Nov 2018)	60,481	73,013	55,360	24,728	0	0	**213,582**
Reprofiles & Amendments	(8,668)	(7,187)	7,592	4,606	0	0	**(3,657)**
New External Funding	835	1,450	0	0	0	0	**2,285**
Proposed Additional Schemes	0	5,435	8,155	8,045	6,855	6,855	**35,345**
Current Proposed Programme	**52,648**	**72,711**	**71,107**	**37,379**	**6,855**	**6,855**	**247,555**

The following proposed schemes are subject to external funding approval:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
A127 Bell Junction Improvements	0	0	2,150	0	0	0	**2,150**
Cart and Wagon Shed	0	200	650	0	0	0	**850**
Total	**0**	**200**	**2,800**	**0**	**0**	**0**	**3,000**

The following schemes are subject to viable business case approval:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
LATC – Delaware and Priory	0	9,219	2,362	0	0	0	**11,581**
ICT – Southend Operations Centre	0	1,000	1,000	0	0	0	**2,000**
Cliffs Pavilion – External Refurbishment Works	0	100	900	0	0	0	**1,000**
Southend Pier – Pavilion Platform Technical Design and Construction	0	500	7,000	3,000	0	0	**10,500**
Sub total	**0**	**10,819**	**11,262**	**3,000**	**0**	**0**	**25,081**
Commercial Property Investment							23,478
Total							**48,559**

7.4 Funding of the Capital Investment Programme

The proposed capital investment 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 investment 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 Investment 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 2019/20 to 2023/24. The 2019/20 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2019/20.

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

- Commercial Property Investment – the rental Incomes to at least cover the financing costs;
- ICT – Southend Operation Centre – £198,000 p.a. from 2021/22 generated by selling services to other organisations, £5,000 p.a. running costs for the new museum store;
- Chalkwell Hall Infants Energy Project – the revenues generated covering the financing costs;
- CCTV upgrade – £37,000 p.a. for increased camera support and maintenance costs;
- Civic Centre Boilers - £5,000 p.a. savings in gas costs through greater efficiency.

In summary, it is the Chief Financial Officer's view that the 2019/20 to 2023/24 Capital Investment Programme is Prudent, Affordable and Sustainable.

8 Treasury Management Policy and Prudential Indicators

8.1 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 Investment 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. Such investments are covered by the Capital Investment Policy which is Annex 1 to the Capital Investment Strategy.

8.2 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 Investment 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 2019/20 to 2023/24 are shown in the table below:

Operational boundary	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***	***Estimate 2021/22 £000***	***Estimate 2022/23 £000***	***Estimate 2023/24 £000***
Borrowing	287,100	322,200	337,400	342,500	352,700
Liabilities outstanding under credit arrangements	2,900	2,800	2,600	2,500	2,300
Total	**290,000**	**325,000**	**340,000**	**345,000**	**355,000**

Authorised Limit	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***	***Estimate 2021/22 £000***	***Estimate 2022/23 £000***	***Estimate 2023/24 £000***
Borrowing	297,100	332,200	347,400	352,500	362,700
Liabilities outstanding under credit arrangements	2,900	2,800	2,600	2,500	2,300
Total	**300,000**	**335,000**	**350,000**	**355,000**	**365,000**

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 2019/20 to 2023/24 are:

	Estimate 31st March 2020 £000	***Estimate 31st March 2021 £000***	***Estimate 31st March 2022 £000***	***Estimate 31st March 2023 £000***	***Estimate 31st March 2024 £000***
General Fund	284,884	313,946	323,895	315,197	303,928
Housing Revenue Account	98,740	98,740	98,740	98,740	98,740
Total	**383,624**	**412,686**	**422,635**	**413,937**	**402,668**

The Council is only allowed to borrow long term to support its capital investment 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 investment 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.

8.3 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). In 2017/18 our Treasury Management advisers, Link Asset Services, undertook a full review of the historic MRP liability and its implications for that year and future years' liability. Link put forward a range of options to revise historic MRP calculations and to amend the 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. This MRP policy has been continued in 2018/19.

The MRP policy for 2019/20 is included as part of the suite of budget reports being considered as part of this agenda. The MRP for capital expenditure financed by historic supported borrowing is calculated on a 2% straight line basis. The MRP for capital expenditure financed by prudential (unsupported) borrowing is calculated using the annuity method.

The application of the revised MRP policy to 2016/17 and prior years as appropriate had identified an overprovision of MRP that was used in 2017/18 and will be used in 2018/19 and 2019/20 to reduce the MRP charge and will result in a contribution to the recently 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.

8.4 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 £65m (of which £50m is the estimated sum of medium and long term funds managed by external fund managers) during 2019/20 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 Treasury Management 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 Treasury Management Investment Strategy.

8.5 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 2019/20 the bank base rate will increase from 0.75% to 1% in June 2019 and to 1.25% in March 2020. The average interest earned by the Council on its in-house lending is likely to be 1.17% but this does depend on market conditions.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £75k in external interest earned and a difference of £1m in average balances would make a difference of £12k 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 Strategic Director (Finance and Resources).

9 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 Cabinet on 17 January 2019:

- **Council Budget / Financial Sustainability** - Risk that failure to manage the short term budget gap and growing demand for services and failure to ensure the Council is financially sustainable after 2020/21 will result in significant adverse impact on council services.

- **Recruiting and retaining staff** - Risk that the Council will not have the appropriate staffing resources with the right skills, resulting in part, from a failure to effectively manage the transition from our existing recruitment partner to the new partner, will lead to a failure to achieve the Council's ambitions.

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

- **Housing** - Risk that a failure to implement plans to address rising homelessness and failure to develop a robust housing strategy will lead to further street and other homelessness, increased use of temporary accommodation and an inability to meeting rising housing demand over the next 20 years.

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

- **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.

- **Health and Social Care** - Risk that the implementation of Sustainability and Transformation Partnership (STP) proposals and implementation of the Localities Model does not result in effective health and social care outcomes for residents and also leads to significant cost i8ncreases in meeting service demand.

- **Information Management and Cyber Security** - Risk that a failure to ensure the Council has a coherent and comprehensive approach to Information

Protection, including its cyber security arrangements, will result in significant financial and reputational damage to the Council.

- **Children's Services Improvement Plan** - 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.

- **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.

- **Major Developments** – Risk that failure of partners to progress major infrastructure developments (e.g. Seaways, Airport Business park and Queensway) will result in significant financial and reputational damage to the Council.

- **Local Plan** - Risk that the failure to meet deadlines and make sufficient progress in producing a Local Plan will lead to Secretary of State intervention, resulting in reputational damage to the Council and the potential imposition of unwanted planning policies.

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

10 Reserves Strategy

10.1 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 2019/20 to 2023/24;

ii) An optimal level of reserves of £10 million over the period 2019/20 to 2022/24 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 2019/20 to 2023/24 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 2019/20 to 2023/24.

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.

10.2 Housing Revenue Account

In relation to the Housing Revenue Account (HRA) in 2019/20 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 2019/20 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with the HRA's own Medium Term Financial Strategy for the period 2019/20 to 2022/23.

- Forward projections for the HRA beyond 2019/20 are being remodelled to take into account the impact of the Better Queensway regeneration and the updated stock condition survey.

10.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2018 to 31 March 2023 is shown in Annex 1. The balances at 31 March 2019 to 2023 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.

11 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.

The Council has a Fees and Charges policy that states the default position should be to at least recover the cost of providing the service through the fees charged. Where appropriate the Council may knowingly determine not to recover the full cost of some services because of the social impact or other policy reasons including the safeguarding of tourism revenues. Decisions on prices will take account of/balance the following factors;

- Impact on the Council's strategic outcomes
- Whether the Council should provide the service as opposed to market provision
- Whether the price covers all running costs and fixed costs of the service i.e. full cost recovery
- Commercial services will be priced to generate a surplus. Where commercial services are not achieving that aim they will be reviewed, including the potential to improve the market offer or cease trading altogether
- Comparisons with other local authorities and with broadly similar privately provided facilities
- Ability of "customers" to pay and any need for social pricing, subsidy or free provision of services
- Discount prices for Children
- Effect of changes in prices on demand for the service (and therefore income)
- Statutory restrictions on pricing, including legality of any surplus. Some charges or fees are set by Government for us, and others we are allowed to set within their rules.
- Seasonal factors – whether the same charges can be made all year round
- Demand factors – whether it is appropriate to price differently for offpeak/peak/super peak times
- Whether additional services could be provided at an additional price
- Consultation with users
- Non-residents may be charged differentially to residents where appropriate.
- Each financial year charges will be increased by the Consumer Price Index (CPI). This will ensure charges keep pace with the cost of providing services.
- Increases will be implemented in practical monetary values that make sense to customers. The CPI increase may be applied differently across a group of similar services in order to achieve this.
- National taxation policy e.g. VAT
- Where relevant charging decisions will be supported an equalities impact assessment

- Efficiencies and effectiveness
- Administration costs

Concessions may be offered in appropriate circumstances

12 Funding of the Net Budget Requirement

12.1 Government Funding – Grant and Finance Settlement

Government funding of its main revenue support 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 2019/20 was issued by the Ministry of Housing, Communities and Local Government (MHCLG) on 13 December 2018 and the final settlement on 29 January 2019 and this represents the last year of the Government's current spending plans. There is a spending review due in 2019 that will inform future years but the timing is dependent upon the Brexit outcome.

The latest Finance Settlement maintains the key changes in the way that Local Government is now financed, which were introduced in April 2013. The settlement provides authorities with a combination of provisional Revenue Support Grant (RSG) allocation and confirmation of Business Rates top up grant.

The Adult Social Care precept is confirmed to continue, subject to the increase in the precept not exceeding the maximum 6% increase allowed over the three years 2017/18 to 2019/20, (in addition to the 2% previously allowed in 2016/17), and that it can be applied in any of the three years as long as the precept did not exceed an additional 3% in 2017/18 and 2018/19 and an additional 2% in 2019/20.

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

- The Settlement Funding Assessment (SFA) (a combination of actual RSG and estimated business rates income) for 2019/20 is £40.654 million. This compares to a SFA of £44.269 million in respect of 2018/19 (a year on year reduction of £3.615 million and equivalent to an 8.2% reduction). At the start of the last spending review period, SFA was £56.639 million. It has therefore fallen £12.985 million, equivalent to 24.2% over the four year period;

- The RSG element for 2019/20 within the SFA is £5.925 million. This compares to a RSG of £10.318 million in respect of 2018/19 (a year on year reduction of £4.393 million and equivalent to a 42.6% reduction). At the start of the last spending review period, RSG was £21.338 million. It has therefore fallen £15.413 million, equivalent to 72.2% over the four year period;

- 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 2019/20 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, subject to the cumulative increase in adult social care not exceeding 6% over the three year period 2017/18 to 2019/20;

- A Government consultation has been announced that seeks views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England in 2020-21. The consultation closes 21 February 2019. The results of the review are due to be introduced in 2020/21 to coincide with the move to 75% Business Rates Retention in the same year;

- For 2019/20, 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 actual arrangements and allocations have yet to be announced but for planning purposes the Council's share of the BCF for 2019/20 is expected to be no less than £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 2019/20 is £6.744 million, an increase of £1.315 million from 2018/19;

- In addition to the increase in Adult Social Care Precept and Better Care Fund resources, the Government have confirmed a one-off social care support grant for 2019/20 of £2,231,667, of which £824,000 must be spent on adult social care through the Better Care Fund regime, with the remaining £1,407,667 being available to address wider social care pressures, including Children's;

- 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 provisional small business non-domestic rates multiplier has been set at 49.1p (2018/19=48.0p) with the associated non-domestic multiplier has been set at 50.4p (2018/19=49.3p);

- The Government has also issued a further consultation paper on their intention of moving to 75% business rates retention for Councils for 2020/21. The stated aim is that this is done in a revenue neutral manner for the sector as a whole, although how this is to be done is still to be fully exemplified;

- The Public Health service grant allocation for 2019/20 has been notified as £9.212 million (a reduction of £0.250 million on 2018/19, equivalent to a 2.64% reduction).

12.2 Dedicated Schools Grant (DSG)

2019/20 is the second year of the Government's National Funding Formula (NFF) as the methodology for distributing national resources down to each education authority. That methodology saw the introduction of a four block model.

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

The 2019/20 DSG allocation is released in late December, the Schools block and Central block is set and based on information incorporating through the previous October schools census. The Early Years allocation is an estimate, as this is ultimately based on actual participation rather than a fixed budgetary amount, funding is therefore adjusted using both the January 2019 and January 2020 early years census. The High Needs block is also provisional (although not expected to change materially), and will be updated in July 2019, once the import and export adjustment is processed which relates to place funding adjustments for home authority pupils placed in another local authority's area.

The total DSG for 2019/20 is £150.2 million (latest allocation for 2018/19 = £147.7 million). In practice the final DSG awarded to the local authority will exclude funding for Academies, and High Need place funding for both colleges and further education providers, and free special schools, as this is awarded directly to them from the Education and Skills Funding Agency. Therefore the final estimated allocation expected to be awarded to the local authority is £46.9 million, after considering these estimated deductions of £103.3 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 2018/19. Based on estimates the total Pupil Premium will provide is an additional £7.9 million for schools in Southend-on-Sea (both Maintained and Academy schools).

12.3 Council Tax

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

For 2018/19 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.

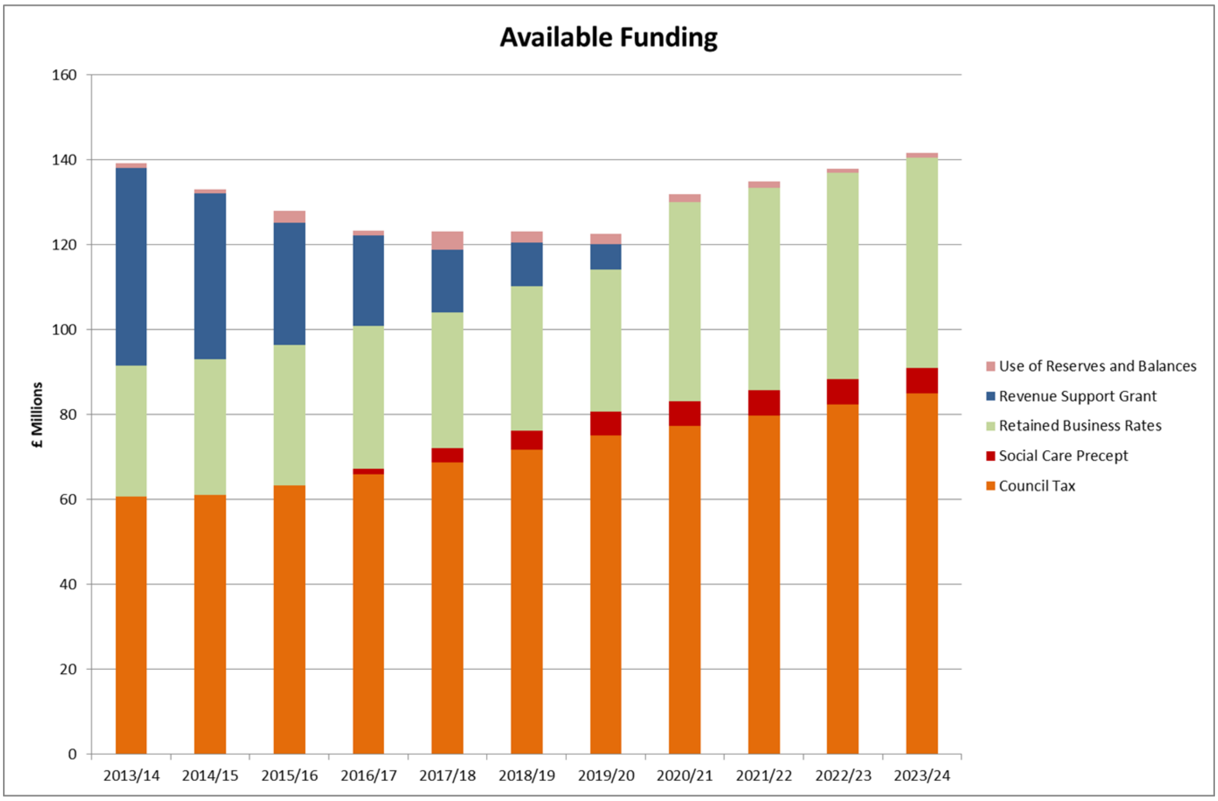
As an indicative guide, for Southend Borough Council every increase of 1% raises £770k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

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 2019/20 is 58,424.44 (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.

12.4 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.



13 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2019/20 to 2023/24 is shown in Annex 2.

13.1 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 1.99% for each year from 2020/21. In addition it is assumed that no further increases in the social care precept will be allowed.

- **Revenue Support Grant** –The MTFS uses the final 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, it has been assumed that this will be on a revenue neutral basis. The amounts for 2020/21 to 2023/24 are highly likely to change.

- **Business Rates** – the figure for 2019/20 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 2020/21. Although it is likely that business rates will move to 75% rates retention from 2020/21, in the absence of any other information, it has been assumed that this will be on a revenue neutral basis. The amounts for 2020/21 to 2023/24 are highly likely to change

- **Support from Collection Fund** – a surplus has been declared for 2019/20, 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. An assumption has been made as to amounts available for release in future years.

Inflation and Fees & Charges

- **Pay award** – there is assumed to be an increase of 2.0% in 2019/20 and future years. This is based on the current two year pay award 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 resources.

- **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.

Budget Reductions and Service Investments

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 financial settlement for iBCF for 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 2019/20. Therefore the MTFS assumes future years remain unchanged.

Public Health Funding

The MTFS includes 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 to 2023/24 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.

13.2 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:

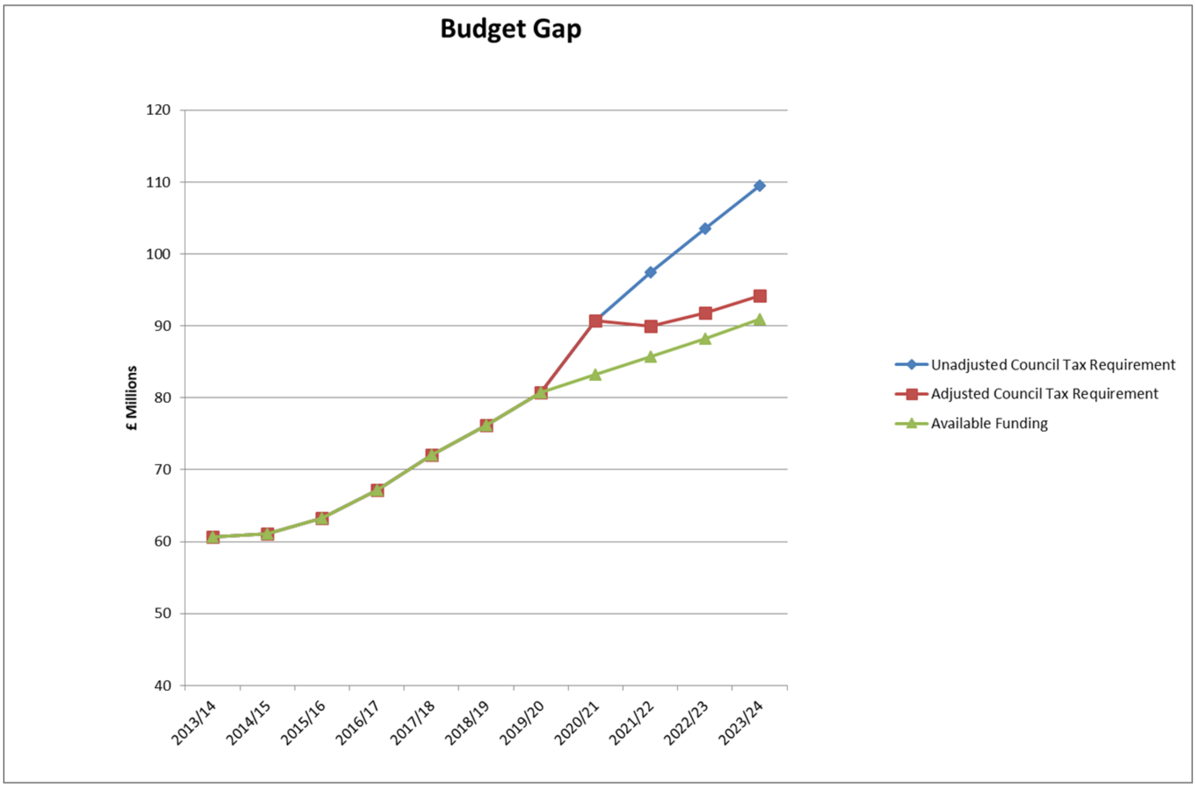
Assumption in MTFP for 2020/21	**Change in assumption**	**Effect on the budget gap for 2020/21**	**Effect on Council Tax**
Council Tax increase of 1.99%	No Council Tax increase	Increase of £1,620k	
Retained Business Rates growth at 2.0%	Retained Business Rates growth at 1%	Increase of £319k	Increase of 0.4%
2% pay award	Pay award of 3%	Increase of £650k	Increase of 0.8%
Inflation for contractual goods and services at 3%	Inflation for contractual goods and services at 4%	Increase of £333k	Increase of 0.4%
Fees and charges increased by 2%	Fees and charges not increased	Increase of £600k	Increase of 0.8%
100% of identified on-going savings of £4.1M will be achieved in 2019/20	95% of identified on-going savings of £4.1M will be achieved in 2019/20	Increase of £205k	Increase of 0.3%

13.3 Financial Planning 2019/20 to 2023/24

The Medium Term Financial Plan as shown in Annex 2 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 2019/20 has been closed by a combination of the proposed savings totalling £4.113 million and use of £2.500 million collection fund surplus. The budget gaps remaining for the financial years 2020/21 to 2023/24 are set out below:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Remaining budget gap	£0m	£7.5m	£4.3m	£3.5m	£3.3m	£18.6m
Budget gap as a % of the 2019/20 council tax requirement	0%	9.3%	5.3%	4.3%	4.1%	23.0%

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 council tax funding.



13.4 2020/21 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 29 October 2018 with further restriction placed on the Government's public spending plans for Local Government. The tightening and reduction of Government funding contributions to local government funding along with the Government's current and future funding reforms, means that the current financial challenges for 2020/21 and beyond will continue. This needs to be seen as part of a continued period of financial entrenchment that Local Government has already encountered. 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 to work towards a position of financial self-sustainability.

This report predominantly addresses, as we are required to do, a detailed budget for 2019/20 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 start addressing the Councils Ambition 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 this will need to be challenged as we move forward and work towards delivering against the Council's agreed 23 outcomes.

The Council may need to increase focus on 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 need to 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 work alongside the community, its residents and businesses, to help support the 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.

As the Government funding reforms are implemented we will soon be in a position where our funding to maintain/improve our council services will come from three main areas;

- Business Rates
- Council Tax
- Other forms of income we can generate e.g. Fees & Charges, commercial activity, traded services, etc

Therefore, this will mean an era of financial self-sustainability for Local Authority's and that longer term and focussed outcome based budgeting will be the key. This essentially will mean the prioritisation and reallocation to our outcomes of all our resources both Capital and Revenue alongside our people and our physical assets.

The Council will therefore seek to ensure that the Council Tax and Business rates bases are improved and income collection levels are at least maintained. In addition, the Council will explore innovative income generation opportunities that will assist with increasing the Council's revenue sources to assist with meeting the need to be financially self-sustainable and to support the delivery of our outcomes. As part of this there is the intention to look greater at commercial opportunities for services of the Council.

Given the financial challenge we have and will 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.

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 2018, that further savings in the order of £19 million will be required from the Council's circa £230 million annual gross budget (after excluding Schools, HRA and Housing Benefits) for the four years 2020/21 to 2023/24.