Appendix 16

MEDIUM TERM FINANCIAL STRATEGY 2016/17 to 2019/20

February 2016

Contents

Annexes

Annex 1	General Fund Savings Proposals 2016/17 – All Council Services (excluding schools)
Annex 2	Earmarked Reserves
Annex 3	Medium Term Financial Plan 2016/17 to 2019/20

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 Round 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. This MTFS incorporates the headline numbers from SR15, but until the consultations expected over the summer have been released there remains an inherent level of uncertainty of the impact on the Council.

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
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				

SR15 sets 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;
- Increasing the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week;
- 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.

2.2 Public Spending and the Economy

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

The Autumn Statement

The Chancellor of the Exchequer presented his Autumn Statement alongside SR15 to the House of Commons on 25 November 2015.

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

Local Government Revenue Funding

The government has presented local government funding across two funding sources; these being:

1. DCLG Local Government DEL

   The 2015/16 Baseline for this is £11.5bn. It is therefore believed to include:
   - Revenue Support Grant £9.5bn
   - New Homes Bonus £1.0bn
   - Other DCLG supported Grants £1.0bn

2. Locally Financed Expenditure

   The 2015/16 Baseline for this is £28.8bn.

   The footnote to the table suggests that this amount is total council tax income, plus growth in business rates (RPI plus taxbase). It also factors in the assumption that local authorities will move £1.1bn, £0.8bn, £0.4bn and £0.0bn to reserves over the Spending Review Period.

Table 1 and Figure 1 below shows the figures provided within the report. It is important to note that

- The current Business Rates Baseline of £11.3bn is not factored into the figures.
- The figures do not include the move to 100% business rate retention, which is to be consulted upon shortly
- Changes to grants paid to local authorities from other central government departments are not taken into account.

Table 1 Local Government Funding amounts as per SR15

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4
DCLG Local Government DEL % change		-16.5%	-22.9%	-17.6%	-11.5%
Locally Financed Expenditure	28.8	29.0	31.5	33.6	35.1
Locally Financed Expenditure % change		0.7%	8.6%	6.7%	4.5%

This does not include the £0.25bn per annum in funding from DCLG to support New Homes Bonus

Figure 1 Local Government Funding amounts as per SR15

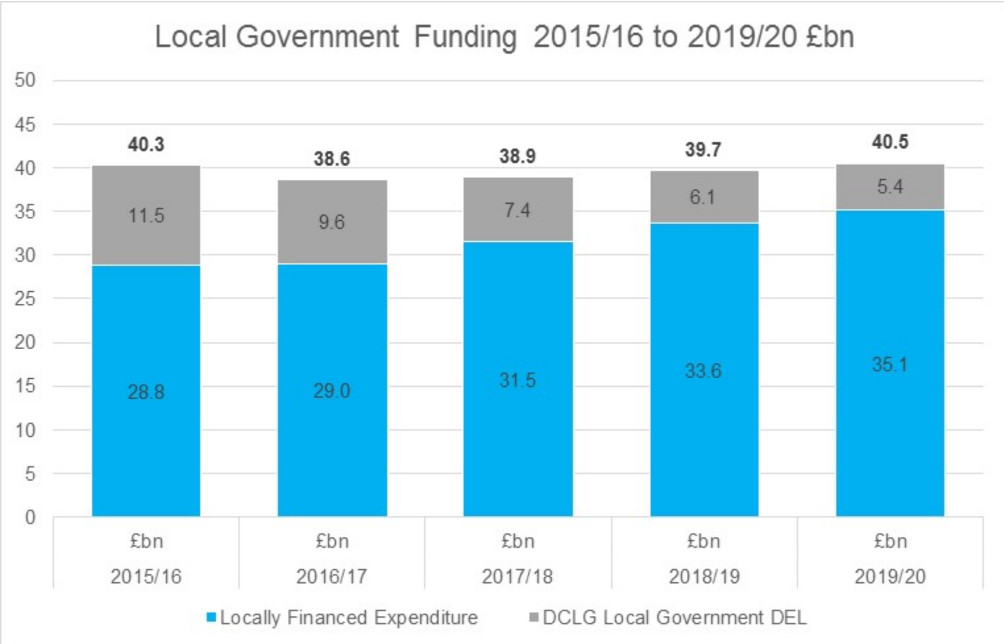


Table 1 shows:

- A reduction in funding of £6.1bn in local government DEL over the period. This equates to a 53% reduction in funding. The SR report shows the "Cumulative real growth" for this change as -56% (i.e. including the impact of forecast inflation).
- Total funding increases from £40.3bn to £40.5bn.

In order to put the 53% funding into perspective, it is necessary to consider this in the context of current Settlement Funding Assessment levels (i.e. including the business rates element). For 2015/16, total funding from SFA is £22.2bn. Therefore, a reduction of £6.1bn over the Spending Review period would represent a reduction of 27.5%.

However, what is unclear from the figures is the extent to which allowances have been made for the RPI growth in business rates i.e. LG Futures forecasts that the Business Rates baseline is to grow from £11.3bn to £12.1bn over the SR15 period. If the funding amounts remain as indicated in table 3.1 above, it would mean that part of the £6.1bn would be offset by the RPI growth in business rates of £0.8bn i.e. a £5.3bn cut (so a 23.9%, rather than a 27.5% cut). Table 3.2 below gives both scenarios (i.e. taking off RPI increases from future funding amounts and assuming that local government keep the RPI increase on top.

Table 2 Forecast SFA Equivalent Funding 2016/17 to 2019/20

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
2015/16 Baseline	22.2	22.2	22.2	22.2	22.2
Cumulative Cut to be applied		-1.9	-4.1	-5.4	-6.1
Funding Level	**22.2**	**20.3**	**18.1**	**16.8**	**16.1**
Cumulative % change		-8.6%	-18.5%	-24.3%	-27.5%
Funding Level (from above)	22.2	20.3	18.1	16.8	16.1
Forecast RPI growth in NDR Baseline		0.1	0.3	0.6	0.8
Revised Funding Level	**22.2**	**20.4**	**18.4**	**17.4**	**16.9**
Cumulative % change		-8.1%	-17.0%	-21.8%	-23.9%

Due to the way in which the figures have been presented, it therefore remains to be seen what the total extent of the funding reductions are. For subscribers to LG Futures' Medium Term Revenue Resource model, the cash reduction that LG Futures forecast between 2015/16 and 2019/20 was £5.4bn, which is between the two figures above (i.e. -£6.1bn and £-5.3 bn) and therefore individual authority forecasts should not be significantly altered with either of the possible scenarios above.

Alongside the overall funding amounts, there were a number of specific local government related announcements within the Spending Review Report; these are explained below:

Social Care

As widely discussed in the days leading up to SR15, the government is to allow local authorities with adult social care responsibilities, the power to raise an additional 2% through council tax to fund adult social care. The 2% would be in addition to the council tax referendum limit (later set at 2%) and would need to be used for adult social care only.

This is expected to raise an additional £2bn per annum by 2019/20. The government also announced that £1.5bn will be made available to local authorities to add to the Better Care Fund by 2019/20.

The SR report states that there will be savings made to Public Health Funding, with 3.9% average real terms saving per annum over the next five years (therefore assumed to mean from £3.4bn in 2015/16 to £3.1bn by 2020/21) and that the ring fence will be maintained for 2016/17 and 2017/18. The government are also planning to consult on moving the funding from the current grant-based system to being funded from retained business rates.

Funding Reform

The Chancellor re-iterated previous announcements regarding the move to 100% business rates retention by the end of this Parliament. As indicated above, none of the figures published reflect this move and the report indicated that the government will consult shortly on this area.

The government also intends to consult on changes to the local government finance system to rebalance support, including to those authorities with social care responsibilities by taking into account the main resources available to councils, including council tax and business rates. Based on articles published recently, this is taken to be reference to a possible change in the local share of business rates between county councils and districts.

Key features of the move to 100% business rates retention will include the ability for directly elected Mayors to increase the local rate for specific infrastructure projects and the ability for local authorities able to reduce rates locally.

Local authorities will be able to spend 100% of fixed asset receipts (excluding Right to Buy) on the revenue costs of "reform projects" (details to be announced alongside the provisional settlement).

The report included reference to the additional responsibilities that 100% business rates retention may bring. It suggested that the government would consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Public Health funding (as above).

There will be an extension to the doubling of small business rate relief (SBRR) in England for 12 months to April 2017.

As previously announced, the government confirmed that the current review of business rates will report at Budget 2016 and it will be fiscally neutral (it remains to be seen if this is neutral nationally, or at an individual authority level).

Education

The Spending Review has protected the core schools' budget in real terms, enabling the per pupil rate for the Dedicated Schools Grant to be protected in cash terms.

The government will introduce the first national funding formula for schools, high needs and early years. The government will launch a detailed consultation in 2016 and implement the new formulae from 2017/18.

There will be investment of "£3bn over the Parliament to open 500 free schools and provide 600,000 additional school places, rebuild and refurbish over 500 schools and address maintenance needs.

The government plans to extend Academies and, in doing so, to save up to £600m on the Education Services Grant.

New Homes Bonus

The government is to consult on reforms to the New Homes Bonus, including means of 'sharpening' the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor, which is intended to ensure that no authority loses out disproportionately.

Other relevant announcements include:

- The Right to Contest regulations will be strengthened to encourage local authorities to release surplus assets, (this allows communities' rights to reclaim land).
- The government will consult on requiring all authorities to record all property assets in a consistent way using the government's electronic Property Management Information System (e-PIMS).
- The government will publish guidance for pooling Local Government Pension Scheme Fund assets into up to six British Wealth Funds, containing at least £25 billion of Scheme assets each. The government is inviting administering authorities to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs, while maintaining overall investment performance.
- Funding of £500m for Disabled Facilities Grant, to fund up to 85,000 housing adaptions per annum.

2.3 Value for Money

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

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

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

2.4 Economic situation

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

Capita Asset Services Commentary (January 2016)

Recent data points to UK GDP growth being slower than expected, with Q2 and Q3 quarterly growth both revised lower, to 0.5% and 0.4% respectively, which leaves growth in the first three quarters at 2.1%. Consumer confidence remained high and the recovery is being consumer driven as real household spending accelerated in Q3. Mortgage approvals increased in November. The trade deficit widened to £4.1bn at the start of Q4, and the deficit excluding oil and "erratics" hit a five year high. The strength of Sterling has meant that exporters have had to cut prices to remain competitive. Employment has increased in the three months to October, helped by a surge of self-employment. This has pushed employment levels to a record high and the rate of unemployment fell for a fourth month, and now stands at 5.2%. However, with substantial part time job growth as well the labour market is not quite as robust as the headline might suggest, as there are many who would like to work full time but are unable to secure such work. CPI returned to positive territory in November, but only just at +0.1%, with transport the greatest contributor, as clothing/footwear discounting proved a drag. If utility companies pass on falling wholesale costs, then household energy prices will also fall. Notwithstanding these short term impacts, it is generally agreed that consumer price inflation will rise in the near future. Few inflationary pressures are evident elsewhere, thus reaching target inflation levels remains a distant prospect. Markets are convinced that the first UK rate rise will be delayed until 2017. UK equities had a disappointing end to the year, the FTSE dropping 2% month on month but this was in line with global falls. The FTSE 250 which is far more domestically focussed was rather steadier, suggesting that investors are less concerned about the UK economy than the prospects for the wider global economy.

Eurozone (EZ)

Though there are indications that there has been slowing towards year end, surveys suggest that rates of growth have remained reasonable. Germany remains stronger than its partners and indicators point to quarterly growth accelerating and pushing annualised growth to around 2%. French indicators were less upbeat as activity appears to have been affected by the Paris atrocities. Overall across the bloc spending growth figures suggest that the consumer recovery may be losing momentum, with retail sales falling marginally in October, as they had the previous month. However, of the four main economies in the bloc, consumer confidence rose in all but Germany in 2015. The labour market recovery remains in place with monthly falls in jobless numbers extended to thirteen months in October. This pulled the rate of unemployment down to 10.7%. Within the bloc the vast gulf in fortunes of workers remains, with a 20.5% spread between the rate of unemployment in Germany and Greece. Inflationary pressures remain subdued, with headline CPI of just 0.2% in December leaving overall inflation for the year at a record low 0%. The negative impact of energy prices will wear off as the year progresses, even though there have been fresh oil price declines. Core inflation will remain low. Weak wage growth and labour costs will suppress upward pressures on services inflation. The ECB disappointed the markets by failing to deliver the policy changes that had been suggested prior to its December policy meeting decision. At this meeting the only move was to extend the existing QE programme to at least March 2017 and to cut deposit rates by just 10 basis points. However, the ongoing asset purchases and further improvement of conditions in the banking sector could see money and lending growth pick up over the coming quarters. The disappointment of the ECB decision saw short term interest rates and the value of the €uro pick up, but markets continue to price in the chance of additional action further down the line. Expectations of further interest rate divergence with other major economies, notably the UK and US should, though, prevent significant €uro strengthening.

USA

There is a currency-driven divergence between manufacturing performance and the rest of the US economy, as the currency's surge leaves the sector staring at another recession. The remainder of the economy is doing well, and strong domestic demand is, in part, why the $ has appreciated so strongly. Mining output was hit by the falling oil price again in November, and the continuance of weakening prices could see the numbers of active drilling rigs fall again. Oil and gas extraction has proved relatively stable, but faces a decline next year. Core sales proved strong, and are indicative of real consumption growth of about 2.5% year on year in Q4. This has been rather mixed recently, but real income gains have proved more robust and that points to households having the capacity to draw on savings. The prospect of interest rate hikes should not concern households as debt services' costs are still at historically low levels. Over time though, as borrowing costs increase it will hit consumption in sensitive areas, most notably durable goods. The unemployment rate slipped to 5.0% in November, with the economy pushing full employment. Wage gains have not been as significant as might be expected in the circumstances. Falling energy prices are keeping monthly inflation in check but the annual rate of the headline measure did rise to 0.5% on base effects, as last year's larger oil price declines drop out of the equation. Analysts expect headline inflation to return to the target level of 2% not too far into 2016. The Fed raised rates, to 0.25-0.50%, at its final meeting of the year, as had been heavily indicated by senior members. Market rates have, generally, reacted as expected, with short term rates increasing, but longer dated Treasury yields have fallen.

Asia

The Asian economies remain a concern with the Chinese economy still struggling to attain the levels of desired growth as the authorities seek a more balanced growth generation However, despite disappointing figures, some analysts believe that growth is more likely to improve than slow in the coming months. Confidence among small and medium sized businesses has edged higher and the argument put forward for growth is that what has been seen is structural slowing and reversal of previous monetary tightening will feed recovery. The Japanese economy remains way off the government's targeted inflation levels and the problems in China, a major trading partner, is not helping the situation. External commentators believe that the Bank of Japan should be adding to stimulus packages to boost growth, but that is not the case within Japan. However, it would seem likely that if the situation does not improve in early 2016 the internal pressures may start to build.

Summary and interest rate view

UK interest rates look set to remain where they are for most, if not all of this year. The recent economic data does not offer any compelling reason for an increase at this point and the February BoE Quarterly Inflation Report will be anticipated by the markets. In the US the first rate hike of the up-cycle has been delivered and discussion is now on when the next will be sanctioned. Meanwhile, in Europe the pressure will be on the ECB to act further if the economy fails to ignite. The concern remains that failing to take more decisive action in December may exacerbate problems rather than alleviate them, in the short term, as markets, investors and consumers are unclear about what is likely to happen in the months ahead.

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, and is continuing to give a grant to local authorities who do not increase their Council Tax.

The Government has not offered a freeze grant in 2016/17. 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 authoriites such as Southend-on-Sea also will raise an additional 2% 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 be set centrally. However as part of the financial settlement, local government retains 50% of money assumed to be raised from local businesses. This is topped up by Revenue Support Grant and "top-up" payments to the full amount of the baseline need. Should actual business rate receipts exceed expectations the additional income is shared with central government. However the converse is also true; subject to certain safety net arrangements, the risk of lower business rate receipts is also shared. Local government funding is therefore now intrinsically linked to the performance of the local (and national) economy.

- 2015/16 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. 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. At the time of writing this report announcements about the size and nature of the 2016/17 BCF are still awaited. Therefore the budget assumes that the existing flows from the BCF pool to support adult social care will continue.

- 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 Sustainable Community Strategy

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

3.2 Corporate Plan

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

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

The Corporate Plan operates at three levels:

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

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

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

3.3 Partnerships

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

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

4 Corporate Plan

4.1 Corporate Vision

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

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

4.2 Corporate Aims

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

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

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

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

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

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

4.3 Corporate Priorities

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

Council's Vision	**"Creating a better Southend"**
Council's 5 Aims	**Council's 15 Corporate Priorities 2016-17**
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 – 2016/17

The Corporate Priorities are reflected in the 2016/17 General Fund budget being recommended to Council at its meeting on 25 February 2016. It includes proposals for savings and efficiencies totalling £10.1 million to balance the budget, these are summarised below by the relevant Department:

- Corporate Services £1,408,000
- People £5,311,000
- Place £3,367,000

The 2016/17 General Fund budget also includes:

- Inflation Allowance of £1,240,000.
- Corporate Cost Pressures of £1,355,000.

The proposals for savings and efficiencies for 2016/17 are summarised in Annex 1 and are incorporated into the Medium Term Financial Plan in Annex 3.

6 Housing Revenue Account – 2016/17

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.

The Government are in the process of introducing new legislation that will fundamentally change the economics of the HRA. The Welfare Reform and Work Bill will force the Council to reduce rents by 1% each year from 2016/17 to 2019/20, and will also introduce provisions to charge market rents for "high" earners. The Housing and Planning Bill will 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, and will also enforce fixed term tenancies.

As the legislation is still passing through Parliament, and the associated regulations yet to be published, it is considered premature to produce a HRA Medium Term Financial Plan and Strategy at this stage.

Clearly though there is a need to develop a new business plan for the HRA that reflects the new environment within which it needs to operate. To that end work is underway to identify

- The impact of the Welfare Reform and Work Bill and the associated regulations once issued, that deal with the required reduction in rents and Pay to Stay;
- The impact of the Housing and Planning Bill, and the associated regulations once issued, that deal with the enforced sale of high value stock and fixed life tenancies;
- An up to date 30 year business plan for capital investment, repairs and maintenance;
- A reassessment of the HRA depreciation policy, looking at realistic component life cycles, and reflective of the need to reinvest back into the stock;
- Required efficiency targets for South Essex Homes;
- Any proposals arising from the Sheltered Housing review; and
- The impact of Better Queensway.

It is proposed that the HRA Medium Term Financial Plan and Strategy be brought back to Cabinet in autumn 2016 to inform the debate on the 2017/18 and later years HRA budgets.

7 Asset Management Plan

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

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

- Operational assets – The Council’s operational buildings

- Non-operational assets – The Council’ investment portfolio

- Regeneration assets – Assets acquired or held to support regeneration.

- Surplus Assets – Assets which have no sound case for retention.

- Infrastructure required to deliver the Plan, notably ICT

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

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

The Asset Management Plan is being substantially re-written for the period 2015 – 2025 and will be presented to June 2015 Cabinet. The amendments to the plan will include:

- Revisions to give the Asset Management Plan a high level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims that all the Council’s assets are corporately held and managed strategically to:

    - Support efficient and effective service delivery;
    - Support the regeneration of the town and enable Southend to achieve its objectives;
    - Underpin the Council’s capital programme and revenue budget.

- The inclusion of 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.

- A general review to streamline the document to cross reference other Corporate documents rather than reiterating sections of them.

- An update to the governance section and in particular to the delegated powers set out in the constitution to ensure property decisions can be taken appropriately and promptly and the processes are up to date and clear.

- An update on transparency and data publication, particularly the Pan-Essex Mapping Project (EPAM) hosted by Southend and available for all Essex Local Authorities, Essex Police, Fire and other services to provide a web-hosted, pan-Essex public sector property map.

- PSP Southend LLP update.

- An updated schedule of Asset Management fees and charges to optimise income generation, benchmarked against other local authorities.

- Reference to the Council's high priority major projects such as, and including Queensway, Airport Business Park, Care Home and LD re-provision.

8 Capital Programme

8.1 Capital Expenditure

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

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

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

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

8.2 Spending plans 2015/16 to 2019/20 (and later years)

The Council's proposed capital programme for 2015/16 and future years is summarised below:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 and later years £000	Total Budget £000
Approved Capital Programme (Nov 2015)	49,739	58,644	40,636	30,347	0	179,366
Reprofiles & Amendments	(10,757)	4,207	(2,049)	(9,990)	10,890	(7,699)
New External Funding	155	229	0	0	2,522	2,906
Proposed Additional Schemes	0	10,370	15,310	14,065	12,955	52,700
Current Proposed Programme	**39,137**	**73,450**	**53,897**	**34,422**	**26,367**	**227,273**

8.3 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 £80k for every £1m borrowed or if £8m is borrowed this would equate to an increase in Council Tax of around 1%.

The full impact of borrowing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2016/17 to 2019/20. The 2016/17 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2016/17.

In summary, it is the Chief Financial Officer's view that the 2016/17 to 2019/20 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 external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

The agreed operational boundaries and authorised limits for the years 2016/17 to 2018/19 are shown in the table below:

	Estimate 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m
Operational boundary	280	300	305
Authorised limit	290	310	315

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 2016/17 to 2018/19 are:

	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate 2018/19 £000
General Fund	211,712	231,438	235,647
Housing Revenue Account	98,740	98,740	98,740
Total	**310,452**	**330,178**	**334,387**

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

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

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

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

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

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

9.3 Investments

The Council's investment objectives are:

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

It is projected that surplus cash balances will average £85m (of which £60m is illiquid and of that £35m is managed by fund managers) during 2016/17 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.

9.4 Financial Outlook on Interest Rates

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

The outlook is one of continuing low interest rates and consequently low investment income earnings. 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 2016/17 the bank base rate will increase to possibly 0.75% to 1.0%. The average interest earned by the Council on its in-house lending is likely to be 0.86% but this does depend on market conditions.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £376k in external interest earned and a difference of £1m in average balances would make a difference of £9k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Head of Finance and Resources.

10 Corporate Assurance and Risk Management

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

The following Corporate Risks have been reviewed by the senior leadership group and were also reviewed by Audit Committee on 20 January 2016:

- **Setting a Balanced Budget for 2016 - 19** - Risk that the scale of predicted funding reductions for 2016-19 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..

- **Partnership arrangements** - Risk that changes in approach to partnership working by partner organisations reduces the Council's ability to influence key financial and policy decisions, adversely affecting the ability of the Council to achieve its objectives.

- **Housing Policy/Local Infrastructure** - Risk that changes to government policy in relation to housing development reduces the resources available to the council leading to a strain on local infrastructure.

- **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 price inflation** - Risk that construction related contract price inflation results in less resources to meet capital programme desired outcomes and further pressure on other council budgets.

- **Education and skills** - Risk that failure to narrow the gap in results at secondary schools will result in a lack of appropriate skills of Southend pupils and undesirable levels of young people not in education, employment or training (NEET).

- **Surface water flooding** - Risk that surface water flooding, due to overwhelmed drainage infrastructure, will result in damage to property and infrastructure as well as significant disruption.

- **Seafront cliff movement** - Risk that a seafront cliff movement will result in damage to property, transport dislocation and significant financial and reputational damage to the Council.

- **Ofsted joint inspection** - Risk that increased demand for child safeguarding services and on-going financial and partnership challenges results in a lower than anticipated Ofsted joint inspection rating.

- **Department for Transport Challenge Fund** - Risk that the failure to meet the requirements of the Department for Transport Challenge Fund will severely limit funding available to start or progress highway projects in the Borough.

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

11 Reserves Strategy

11.1 General Fund Reserve

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

i) An absolute minimum level of General Fund reserves of £8 million that is maintained throughout the period between 2016/17 to 2019/20;

ii) An optimal level of reserves of £10 million over the period 2016/17 to 2019/20 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 2016/17 to 2019/20 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 2016/17 to 2019/20.

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 2016/17 and the medium to long term:

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

ii) A 2016/17 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with a MTFS

iii) Forward projections for the HRA beyond 2016/17 are in the process of being remodelled based on a 30 year business plan.

11.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2015 to 31 March 2020 are shown in Annex 2. The balances at 31 March 2016 to 2020 are indicative, based on the assumptions in this report, and do not represent the probable figures that will be disclosed in future years Statement of Accounts.

12 Fees and Charges Strategy

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

In accordance with best practice, the Council:

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

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

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

13 Funding of the Net Budget Requirement

13.1 Government Funding – Grant and Finance Settlement

Government funding through revenue support grant and top-up payments in respect of retained business rates is the main provider of funding for the Council's total general fund budget (excluding schools). As such it represents a significant factor in determining the Council's revenue budget. The provisional Local Government Finance Settlement for 2016/17 was issued by the Department for Communities and Local Government (DCLG) on 17 December 2015 and this represented the Government's next four year spending plans. The final Local Government Settlement is now due to be announced in the week commencing 8th February 2016. 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.

However, a key change to this year's settlement is the Government's recognition of the demand and demographic expenditure pressures on Adult Social Care and the ability for Local Authorities to now implement an Adult Social Care precept of up to 2% to support the growing expenditure on Council budgets in this area.

The provisional settlement sets out the Government's intention to roll the Care Act grant (£1.116m in 2015/16) into the RSG, along with some minor flood related grants.

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

- The Settlement Funding Assessment (SFA) (a combination of actual RSG and estimated business rates income) for 2016/17 is £53.639m. This compares to an adjusted SFA of £61.803m in respect of 2015/16 (a reduction of £8.164m and equivalent to a 13% reduction);

- The RSG element for 2016/17 within the final SFA IS £21.338m. This compares to an adjusted RSG of £29.769m in respect of 2015/16 (a reduction of £8.431m and equivalent to a 28% reduction);

- The settlement provides indicative figures for a four year period (2016/17 to 2019/20), however this requires a sign off from the Council and the detail surrounding the offer is still under consultation;

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

- The settlement indicates that no Council Tax freeze grant is being offered by the Government this year;

- The 2016/17 referendum limit for Council Tax increases has been advised at a level of 2% and confirmation is required as part of the final settlement (2015/16 this was also set at 2%);

- For 2016/17, funding to support social care and benefit health is being continued through the Better Care Fund; a pooled budget between the Council and Southend Clinical Commissioning Group (CCG). The settlement has not indicated what the terms of the Better Care Fund are for 2016/17 but that these were to be announced in January/February. Once announced the Council will have a better understanding of the pooled budget from existing NHS and Council resources will be in comparison to 2015/16. The proposed budget assumes that the Council's share of the BCF will at least remain unchanged given the lack of an announcement from Government.

- The consultation on the provisional finance settlement ended on 15 January 2016 and this has informed the final settlement, which is due in the week commencing 8th February 2016;

- The small business non-domestic rates (NNDR) poundage (multiplier) has been set at 48.4p, having been uplifted 0.80% in accordance with the RPI inflation for September 2015. The associated non-domestic poundage has been set at 49.7p. Non-domestic rates are set nationally by the Government and collected locally by Councils (billing authorities). Under the new arrangements for the localisation of business rates a sum of 50% is returned to Government who then reapportion this sum back to Local Government as part of their main grant settlement. The remaining 50% is retained 49% by the Council and 1% is distributed to the Essex Fire Authority. The Council's actual income from business rates is therefore dependent upon the performance of the local economy, the success of any rating appeals and collection rates. The Police Authority receive their funding separately;

- The Public Health service grant allocation for 2016/17 is not yet known and the Department of Health had recently indicated that this would be announced towards the end of January 2016. At the time of writing this report the Council is still awaiting the formal allocation from the Department of Health.

13.2 Dedicated Schools Grant (DSG)

The DSG is now mainly based on pupil numbers in the October before the beginning of each financial year, plus an estimate for the Early Years Block, plus an allocated High Needs Block, allowing an estimate of total grant to be made in order for local authorities to calculate individual school budgets in February.

The total DSG for 2016/17 is £140.1 million (2015/16 = £137.3 million). In practice the final DSG will exclude funding for Academies and is estimated to reduce by at least £61 million to £79.1 million for maintained schools and high needs.

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 (2015/16 = £1,320/£935 per pupil) who have been registered for free school meals in any of the past 6 years. Based on estimates the Pupil Premium will provide an additional £8 million for schools in Southend-on-Sea (both Maintained and Academy schools). This is compared to £8 million of Pupil Premium in 2015/16

13.3 Council Tax

There is a 3.99% increase in Council Tax for 2016/17 (including 2% for adult social care). For planning purposes an increase of 3.99% has been assumed for 2017/18 onwards.

For 2015/16 Southend-on-Sea Borough Council had the fourth lowest Band D Council Tax (including Police, Fire and Leigh Parish) of all the unitary councils and the second lowest of the local authorities in Essex.

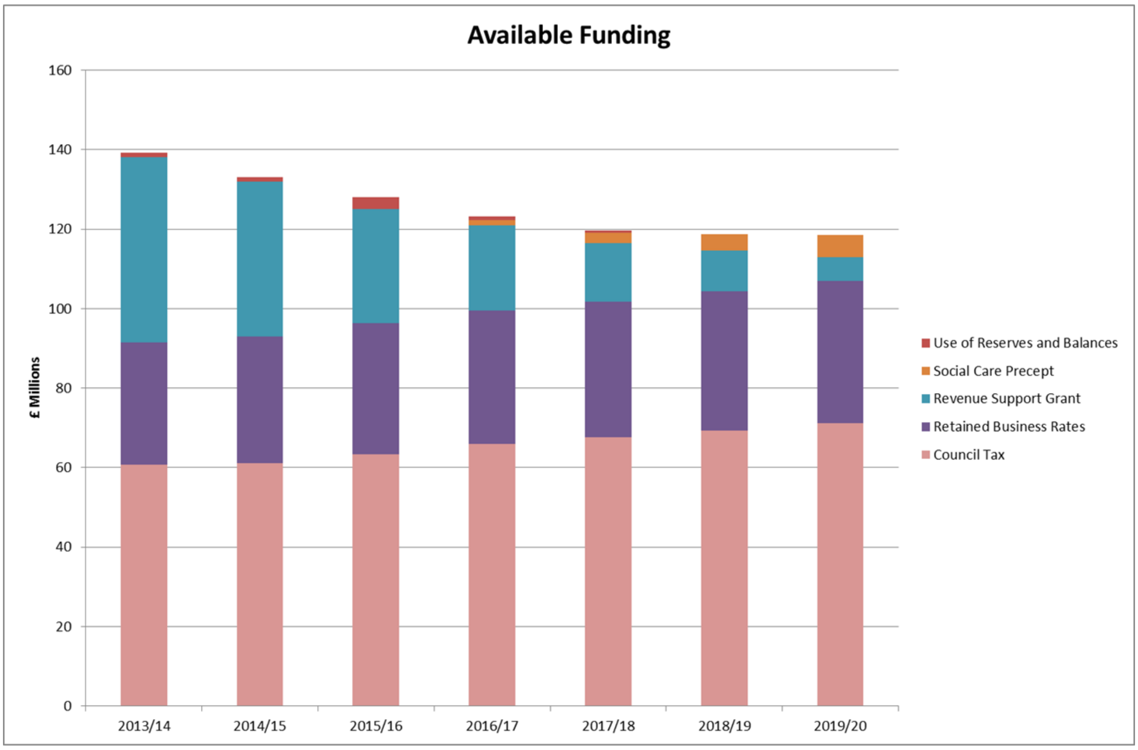
As an indicative guide, for Southend Borough Council every increase of 1% raises £646k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

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 2016/17 is 55,701.27 (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.


Available Funding
£ Millions
0
20
40
60
80
100
120
140
160
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
Use of Reserves and Balances
Social Care Precept
Revenue Support Grant
Retained Business Rates
Council Tax

14 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2016/16 to 2019/20 is shown in Annex 3.

14.1 Key Assumptions

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

Funding

Council Tax - the increase is assumed to be 1.99% each year from 2017/18. In addition it is assumed that the 2% increase to support Adult Social Care will also be implemented.

Revenue Support Grant – the final figure for 2016/17 has yet to be announced. The MTFS therefore uses the provisional settlement for 2016/17, and the provided indicative settlements for future years.

Business Rates – the figure for 2016/17 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 2017/18.

Support from Collection Fund – surpluses have been estimated for both 2016/17 and 2017/18, 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 2018/19 onwards.

Inflation and Fees & Charges

Pay award – there is assumed to be an increase of 1.0% in 2016/17 through to 2019/20. This is based on the assumption that, given the current level of inflation and the upward influences on inflation in the future, there could potentially be pressure on pay inflation.

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

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

Corporate Cost Pressures

Employers' pension contributions – the current triennial actuarial valuation covers the three years 2014/15 to 2016/17, and the financial impact built into the MTFS. A new valuation, as at 31 March 2017, will be undertaken, that will be effective from 20167/18. It is not known at this stage what financial pressures this will bring. However in anticipation a further increase of £750k is assumed from 2017/18.

Apprenticeship Levy – the introduction of an Apprenticeship levy by the Government from 2017/18 is expected to add in the region of £250k to the Council's pay bill.

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 Funding

There is assumed that NHS Funding to support social care and benefit health through the Better Care Fund will continue at existing levels.

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 and no further details are currently available.

14.2 Sensitivity analysis

The effect of changes to these assumptions on the budget gap for 2016/17 and on the Council Tax, are shown in the following table:

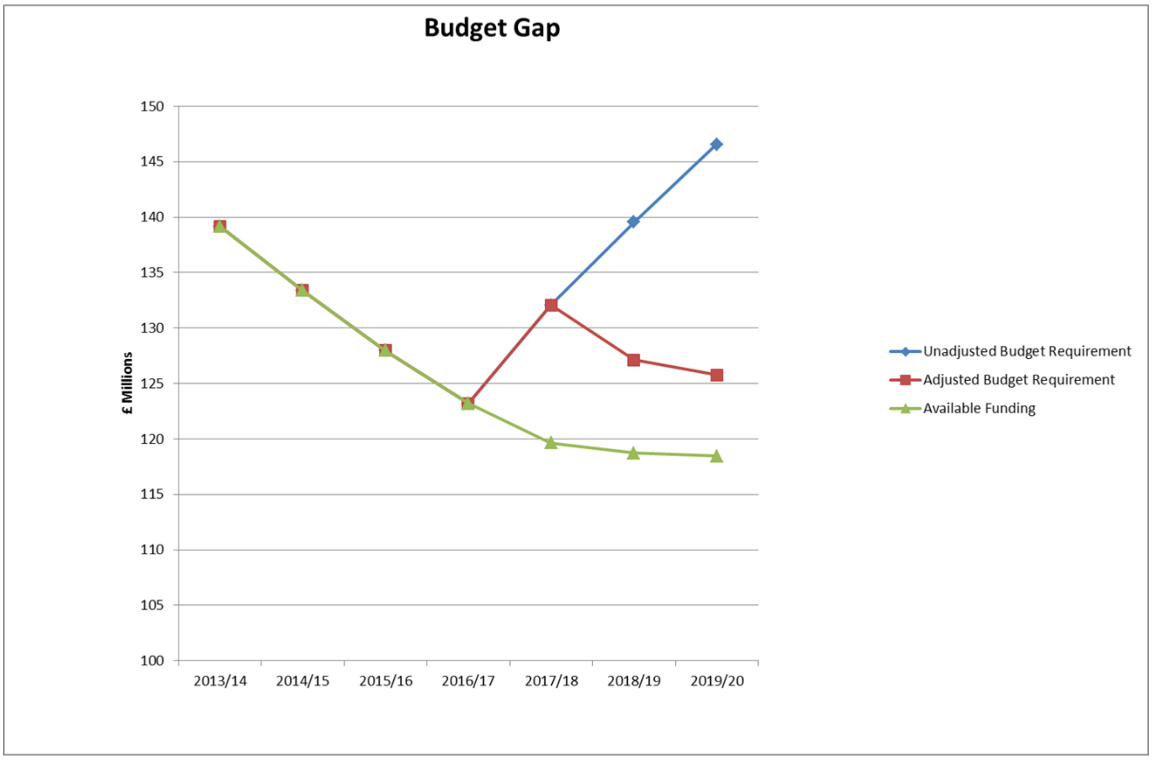
Assumption in MTFP for 2017/18	Change in assumption	Effect on the budget gap for 2017/18	Effect on Council Tax
Council Tax increase of 1.99%	No Council Tax increase	Increase of £1,344k	
Revenue Support Grant as per estimated settlement (31.2% reduction on 2016/17)	Formula Grant decreased by 35%	Increase of £811k	Increase of 1.2%
Retained Business Rates growth at 2.0%	Retained Business Rates growth at 1%	Increase of £241k	Increase of 0.4%
1% pay award	Pay award of 2%	Increase of £700k	Increase of 1.0%
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 £10.1M will be achieved in 2016/17	95% of identified on-going savings of £10.1M will be achieved in 2016/17	Increase of £505k	Increase of 0.7%

14.3 Financial Planning 2016/17 to 2019/20

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 2016/17 has been closed by the proposed savings totalling £10.1 million as set out in Annex 1. The budget gaps remaining for the financial years 2017/18 to 2019/20 are set out below:

	2016/17	2017/18	2018/19	2019/20	Total
Remaining budget gap	£0m	£12.4m	£8.4m	£7.3m	£28.1m
Budget gap as a % of the 2016/17 net budget requirement	0%	10.1%	6.8%	5.9%	22.8%

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 2017/18 and Beyond

In addressing the national economic situation and following the Emergency Budget in July 2015 the Government has emphasised the need to look further at a four year programme of public sector spending restraint and reconfiguration. This was reinforced in the Chancellor's annual autumn speech/Spending review in December 2015 with further restriction placed on the Government's public spending plans up to 2020. The tightening and reduction of Government funding contributions to local government funding and the new Government's changes from April 2013 for the funding of Local Government, means that the current financial challenges for 2017/18 and beyond will continue. This needs to be seen as part of an extended period of financial retrenchment similar at least to the previous four years 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.

This report predominantly addresses, as we are required to do, a detailed budget for 2016/17 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.

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.

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

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

The Council will also seek to address critical issues such as equality, disadvantage, lack of attainment and poverty by working with communities themselves, seeking enhanced training and opportunity and by fostering and promoting the local economy and thereby enhancing opportunities for aspiration, attainment, household income and personal achievement.

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.

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 significant 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 Spending Review in late 2015, that further savings in the order of £28m will be required from the Council's circa £123m annual net budget for the three years 2017/18 to 2019/20.

It is clear that the budget savings presented for 2016/17 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.