Appendix 2

MEDIUM TERM FINANCIAL STRATEGY 2020/21 to 2024/25

January 2020

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1 Introduction

1.1 Background

The Medium Term Financial Strategy (MTFS) provides an integrated view of the whole of the Council's finances and outlook over the medium term, i.e. over the next five years. It shows how the Council intends to align its financial resources to the Southend 2050 ambition, five year roadmap and desired outcomes. However, it should be noted that the further the MTFS looks to the future, the more uncertainties there are.

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.

1.2 Southend 2050 Ambition and Road Map

Southend 2050 is the Borough's ambition for the future. It was developed following extensive conversations with those that live, work, visit, do business and study in Southend-on-Sea. These conversations asked people what they thought Southend-on-Sea should be like in 2050 and what steps are needed now, and in the coming years, to help achieve this. The ambition is grounded in the values of Southenders. It is bold and challenging and will need all elements of our community to work together to make it a reality.

The Southend 2050 ambition includes twenty three outcomes which fit into five themes. The five year roadmap timeline identifies key projects that will help make the ambition a reality.

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 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.

As it 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 focus on achieving the desired outcomes in five years' time. . All revenue and capital resources will be alltocated with the aim of contributing to the delivery of the ambition and the desired outcomes. This Medium Term Financial Strategy has been written accordingly.

1.3 Pride and Joy

By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer;

- 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.

1.4 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;

- 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.

1.5 Active and Involved

By 2050 we have a thriving, active and involved community that feel invested in our city;

- 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.

1.6 Opportunity and Prosperity

By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people;

- 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.

1.7 Connected and Smart

By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure

- 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.

1.8 Implementing the Ambition (Partnership/Community engagement)

The Council is continuing to develop shared ownership of the Southend 2023 outcomes with the aim that, where possible, measures to achieve the outcomes are co-designed and co-delivered with residents and partners. This means developing more innovative partnership arrangements with stakeholders and shifting our culture so that all council staff have an engaging role in their day to day job.

Asset Based Community Development (ABCD) methodology will support this approach with a view to promoting the sustainable development of our communities. As well as a step change in how the council works with residents and stakeholders, an asset based approach will revise the Council's approach to leadership, management of assets, funding streams, commissioning and workforce development.

This approach will include more shared posts, shared commissioning and the co-location of services and staff, along with the development of our locality approach. It will promote a more fluid and creative way for citizens to share their ideas on priorities and solutions, while still valuing the more formal consultative process.

1.9 Aims and Purpose of the Medium Term Financial Strategy

The MTFS takes into account national, regional 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.

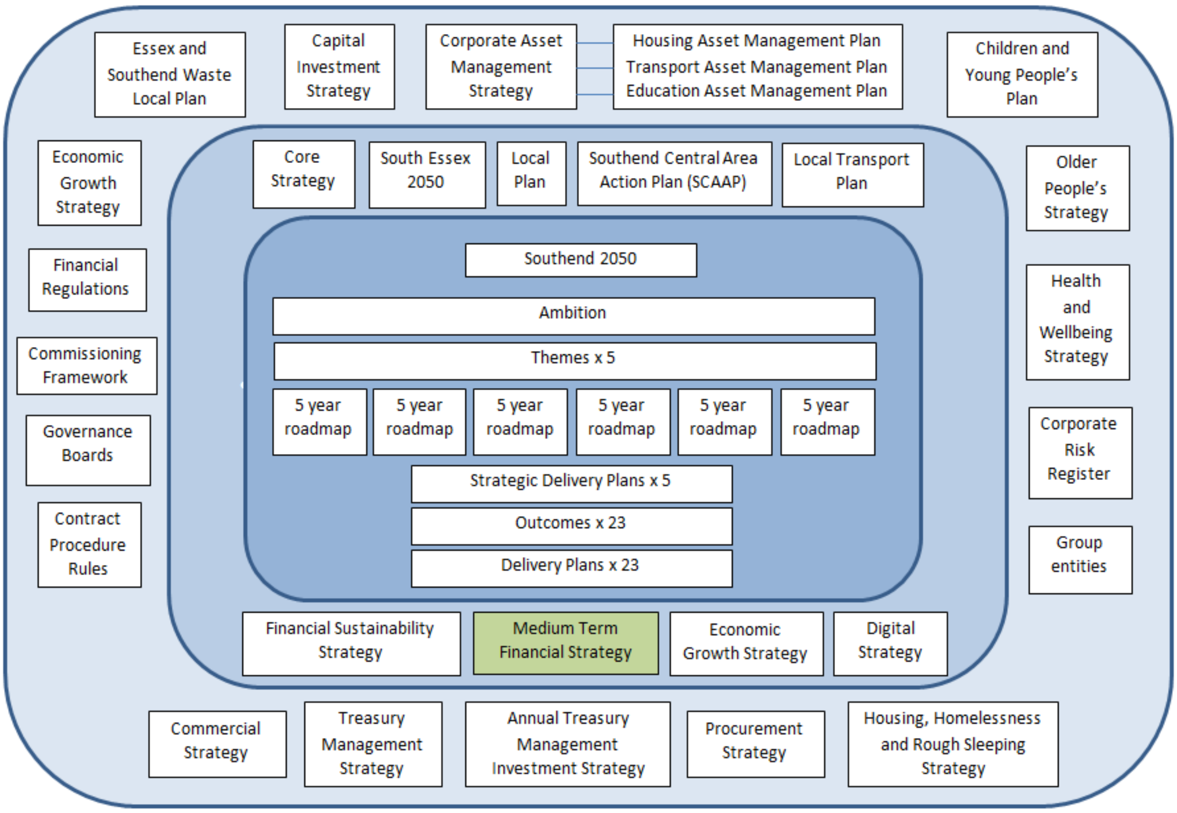
The parameters set by the five year planning period of the MTFS are used to inform the development of the budgets for the General Fund, Housing Revenue Account and the capital investment programme for the first year of that planning period. This is to make sure that, in setting the budget, decisions are not taken that could 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.

1.10 Strategic context

The MTFS is closely aligned to a number of other strategies and plans which impact on the direction of the Council and must reflect and be informed by the drivers and priorities within them. The diagram below shows the links to these other strategies and plans.

MEDIUM TERM FINANCIAL STRATEGY – LINKS TO OTHER STRATEGIES AND PLANS



1.11 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 the social care precept will increase by 2% in 2020/21 but no increases have been included for future years.

Revenue Support Grant (RSG) –The MTFS uses the assumption that the 2020/21 RSG will be the 2019/20 figure plus CPI as indicated in the 2019/20 Government spending round. Although it is likely that all RSG will be subsumed into 75% business rates retention from 2021/22, in the absence of any other information, it has been presumed this will be on a revenue neutral basis. The amounts for 2021/22 to 2024/25 are extremely likely to change.

Business Rates – the figure for 2020/21 is a combination of the fixed top-up payment the Council receives from Government and a local assessment of the net amount likely to be raised locally that the Council will retain. This 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 2021/22, in the absence of any other information, it has been presumed that this will be on a revenue neutral basis. The amounts for 2021/22 to 2024/25 are highly likely to change.

Support from Collection Fund – a surplus has been declared for 2020/21, based on the accumulated balance. 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 2020/21 and 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 the income generated will largely 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 latest draft triennial actuarial valuation, as at 31 March 2020, has been built into the MTFS. Provision has been made for the potential financial impact in 2020/21.

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

Costs of Transformation – with the on-going uncertainty over the future level of resources available, increasing local demand and expectations for priority services, it is inevitable that there will be upfront costs associated with service redesign and the introduction of new service delivery models. The MTFS has been updated to take account of this.

Revenue Investment and Reprioritisation - it is assumed that these changes 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 resulting from the change of Government, services could experience differing challenges. The MTFS has been developed based upon the most up to date information available and will be kept under regular review.

Better Care Fund (BCF) / improved Better Care Fund (iBCF)
The BCF is assumed to increase by 3.4% as indicated in the 2019/20 Government spending round. There is no certainty of the amounts available through the BCF arrangements with Southend CCG beyond 2020/21. The MTFS assumes the continuation of funding at the same level as announced in the 2019/20 financial settlement for iBCF for 2020/21 and future years.

Public Health Funding
The MTFS assumes an increase in the Public Health Grant in 2020/21 in line with the increase in the BCF as indicated in the 2019/20 Government spending round, matched by a consequential increase in spend. It is currently assumed that all Public Health Grant will be subsumed into 75% business rates retention from 2021/22. In the absence of any other information, it is also assumed that the same level of funding will be embedded into the new system. The MFTS will be updated as soon as any more information becomes available.

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 financing built into forward projections.

Dedicated Schools Grant

The Dedicated Schools Grant (DSG) for 2020/21 is now in its third year of total funding allocations set under a revised National Funding Formula (NFF). This includes proposed funding levels for individual school allocations. It remains, a government ambition that all individual school allocations will be fixed as per the NFF, however in 2020/21 it remains a local decision as to whether a Local Authority (in consultation with its School Forum/Education Board) choose to adopt.

With this in mind, our Local Authority and Education Board have made the strategic decision to align individual school allocations to the principle decisions of the NFF, so should the government impose a hard national funding formulae for individual school allocations in future years, our local schools are already aligned to this funding trajectory. The Department of Education (DfE) have reported that this is in line with the majority of other local authorities.

Our high needs block funding (also recognised as a national issue), has been under considerable financial pressure which had impacted the DSG reserves balances. Despite this, and as a result of robust recovery planning by the Local Authority and Education Board and further national funding awarded, our local high needs block funding and opening DSG reserves are now in a sustainable funding position moving forward into 2020/21.

In 2020/21, the DfE also announced (under NFF) a 20% funding (an equivalent £180,000 loss) reduction to the DSG Central Block element, which is funding that has historically been used to support Council expenditure, providing it serves the benefit of an educational purpose. To cover this funding loss in 2020/21, the Education Board helpfully agreed a transfer of £180,000 from the Schools Block allocation (for 1 year only), recognising for 2021/22 and future years a plan now needs to be determined as to how the Local Authority will manage this funding loss moving forward, and it could well be likely, although not yet formally announced, that a further 20% funding loss will be applied in 2021/22 until the full funding allocation of £900,000 has been removed from the DSG by 2024/25

1.12 Corporate Assurance and Risk Management

The Council has identified key risks that may impede the delivery of Southend 2050 ambition, and the desired outcomes for 2023.

The Council's governance framework supports the delivery of the ambition, to ensure that these are:

- Effective, but as simple as possible and easy to understand;
- Joined up and complementary, not conflicting with each other;
- Designed around customers;
- Making best use of technology and digitally enabled where this makes sense;
- Compliant with legislative requirements and ensuring that resources are used efficiently and effectively;
- Driving the desired outcomes.

The Council has identified core principles at the heart of its Risk Management Framework, these include that:

- Risk management is a positive value added activity, focused on achievement and successes, not a negative bureaucracy – by changing the perception and raising awareness officers will have increased confidence when managing operational risks;
- All staff are responsible for risk management and resources that support the framework are there to 'support and challenge' not 'own and do';
- Wider Member involvement in identifying and monitoring the most strategic risks the organisation faces would add value, whilst the roles of the Audit Committee, Scrutiny and Cabinet are critical to the robustness of the overall framework;
- The Southend 2050 ambition and outcomes need to drive the Council's budget and financial management arrangements, performance management of the outcome delivery plans and risk management framework;
- By getting the conversations happening with the right people, at the right time and in the right place, the required thinking can be applied and the processes to capture, document and report risk will be simple and become business as usual;
- The framework ensures joined up Strategic, Operational, Programme and Project Risk Management whilst recognising the differences between them.

The Council's Corporate Risk Register identifies the key risks as:

- Risk that failure to address the financial challenge by effectively managing the growing demand for services and enhancing local income streams will threaten the medium to long term financial sustainability of the Council, leading to a significant adverse impact on Council services;
- Risk that the Council will not have the appropriate staffing resources, with the right skills working in the right places within collaborative teams, resulting, in part, from a failure to effectively embed the arrangements with the new recruitment partner, leading to a lack of workforce capacity resulting in a failure to achieve the Council's ambitions;
- 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;
- Risk that a failure to implement plans to address rising homelessness and failure to implement the Housing, Homelessness and Rough Sleeping strategy will lead to further street and other homelessness, increased use of temporary accommodation & an inability to meet rising housing demand over the next 20 years;
- Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough;
- 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 resulting in increased health inequalities, worsening health outcomes and significant cost increases;
- Risk that a failure to ensure the Council has a coherent and comprehensive approach to data protection, including its cyber security arrangements, will result in a data breach or cyber-attack, leading to significant financial and reputational damage to the Council;
- 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 deliver the outcomes anticipated by the Council's roadmap for the children in need of support;
- Risk of contractor failing to meet contractual requirements to effectively manage waste arrangements results in a loss of service quality and additional financial liability for the Council;
- 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;

- 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;
- 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;
- Risk that failing to implement changes needed to reduce the Borough's carbon footprint will cause an inadequate contribution to the reduction in carbon emissions required. This will result in significant adverse impact on the Borough, and if the climate adaptation measures being implemented are also inadequate, there will be further implications for the Council in needing to respond to climate events in the Borough.

2 Horizon Scanning

2.1 Demographics

For Southend Borough residents/service users:

- 12% of Southend's males and 28% females are economically inactive, with average weekly earnings for males £546 and £312 for females;
- 39% of Southend's residents live in areas considered to be in the most deprived 30% in the country, this is 9% higher than the English average;
- 11 of Southend's 17 wards have a higher proportion of children living in poverty than the England average; six of these are amongst the worse 20% of wards in the country;
- Kursaal, the most deprived ward, ranks 136th most deprived area in England (of 32,844 areas);
- Life expectancy is 11.1 years lower for men and 9.7 years lower for women in the most deprived areas of Southend compared to the least deprived areas;
- 0.7% of West Leigh residents indicated they were in very bad health, compared to 1.6% in Kursaal and 1.3% for Southend as a whole;
- Kursaal ward had a borough election turnout of 25%, compared to 42.5% in West Leigh (average overall turnout 31.74%), highlighting lower civic participation in deprived areas;
- Residents living in the East Central locality are significantly less satisfied with their local area (66%) (89% in West and 75% for the borough), feel significantly less safe and cite crime/ASB as

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something they dislike more, than residents elsewhere in the borough;

- Only a minority of residents (23%) agree that they can influence decisions that affect their local area. More than twice this number (59%) disagree.

2.2 National, Regional and Local Policy Drivers

National Factors

National factors which are likely to impact on the Council's financial position:

- The impact of the world economic climate on the national economy. Levels of economic growth are impacted by the prospect of higher trade barriers and the slowdown of growth in key economies such as the Eurozone and China;
- The impact of uncertainties related to Brexit, with investment decisions delayed or mitigated pending future trade arrangements.
- The level of uncertainty in Government funding for future years, with the overall level of government resources for councils dependent on a range of political outcomes, which are very difficult to predict. While the 'end of austerity' has been proclaimed by many politicians, according to the Institute of Fiscal Studies the government forecast (as of November 2019) that councils' core spending could increase by 4.3% in real terms in 2020-21 compared to 2019-20, would still leave spend per person 20% lower in 2020-21 than in 2009-10.
- The move from councils retaining 50% to 75% of business rates, from which the Council could potentially gain or lose, depending on final details on how the expansion will be administered.
- With the vast majority of councils funding set to come from council tax and business rates, there may be a need for large increases in council tax to keep pace with the level of demand on services, notably from children's and adult services.
- Unmanaged service pressures and increases in demand. Forecasts of future demand for services may be under-estimated
- Levels of future pay awards: Enhanced funding for local authorities could be subsumed by pay awards after a long period of minimal increases.
- General inflation assumptions: Driven by monetary policy and cost factors, such as energy prices, supplier prices with increased demands on councils to deliver government priorities, wages, new trade arrangements.

Regional position

In Summer 2017 the Leaders and Chief Executives of South Essex – Basildon, Brentwood, Castle Point, Rochford, Southend-on-Sea, Thurrock and Essex County Council – embarked on a process to develop a long-term growth ambition that would underpin strategic spatial, infrastructure and economic priorities across the sub-region. The 'South Essex 2050 Ambition' is now being taken forward through a number of workstreams to develop:

- the spatial strategy, through a Joint Strategic Plan;
- a Local Industrial Strategy;
- a strategic Infrastructure Framework;
- a Place Narrative.

The context for the SE2050 Ambition is to ensure that the local authorities remain in control of South Essex as a place, putting them in a strong position to shape and influence wider plans and strategies, for example, the Thames Estuary 2050 Commission and the London Plan, and Government and other investment priorities.

The local authorities recognised that long term healthy and sustainable growth in South Essex could only be delivered through a strategic solution and that would require some politically and technically challenging decisions as the Ambition is implemented. In January 2018, therefore, the local authorities formed the Association of South Essex Local Authorities (ASELA) to ensure the implementation of the Ambition has strong leadership and is managed on a truly collaborative basis.

The spatial strategy to implement the SE2050 Ambition is being implemented through a new planning 'portfolio' with a Joint Strategic Plan (JSP) currently being prepared to provide the overarching framework. Local plans and other place-shaping tools will be used to deliver this on the ground, using the range of planning tools available in a more flexible and responsive way.

Work on the JSP is underway with a Project Delivery Board in place, reporting through a Member structure to ASELA, and a timetable and scope agreed. A Statement of Common Ground was published in June and is has been formally agreed by all partners, alongside an update to each authority's Local development Scheme.

The current timetable is ambitious, with the full process through to adoption expected to take 2-3 years at the most. The local policies and place-shaping plans will be developed alongside the JSP but will have to fully reflect its overarching strategy. Timing of the planning portfolio will therefore be carefully managed through the Statement of Common

Ground and under the steerage of ASELA. (The Association of South Essex Local Authorities)

Local drivers

2050 priorities and political administration priorities to support the ambition, roadmap and desired outcomes, while placing greater emphasis or prioritisation on particular areas. Among these are:

- new housing opportunities, including new social and key worker housing;
- measures to improve the private rented sector;
- prioritisation of the green agenda;
- a more integrated approach to transport, including reviewing the current approach to parking;
- enhancing local people’s skills and making the council a living wage employer.

Other local drivers include:

- Increasing demand for services with a population projected to increase from 182,000 to 192,200 by 2025, an increasingly aging population due to grow from 19% to 23% by 2030 and a higher birth rate;
- The need for an anticipated 22,000 homes by 2030 and the increasing demand for new school places.
- Commitment to meeting 2050 priorities, including: tackling climate change, community safety, rough sleeping, housing and skills pipelines, public and integrated transport, health inequalities, key regeneration projects (Seaways, Airport Business Park), digital borough, tackling inequalities – notably on education, health and income;
- New priorities of incoming Council administrations, with local elections due in 2020, 2022, 2023 and 2024;
- Non achievement of anticipated efficiencies from new ways of working, service re-organisations or poor budget management in places;
- The impact of becoming a National Living Wage employer and seeking to achieve real living wage accreditation;
- The need to achieve more income from fees and charges is not always attainable, with anticipated levels of income subject to a range of factors that vary between services.

2.3 Physical-Environmental Factors

The council owns over 6,000 socially rented properties, which are managed by our arm's-length management organisation, South Essex Homes. Over 1,500 local households are on our housing waiting list. The council's housing, homelessness and rough sleeping strategy (2018-2028) sets out a long-term plan to prioritise the supply of safe, locally affordable homes, support people to live independently in their own homes and avoid homelessness and ensure any instance of homelessness is brief and doesn't re-occur.

This plan includes meeting the government's target of delivering 11,140 new homes between 2016 and 2026. With the current average annual delivery of all homes (including affordable) standing at 340 homes a year, this is clearly a challenge.

To ensure we are able to prevent increased levels of homelessness, housing induced poverty and poor or unsuitable housing conditions, we are working with housing associations to ensure a focus on good quality affordable housing and also developing our own social housing. This has already seen the delivery of thirty-three new homes, with a number more in the pipeline. This is complemented by the council's acquisitions programme, with fifteen homes bought from the private market.

3 The Financial Challenge

3.1 Forecast Financial Position 2020/21 to 2024/25

The Council is dealing with many of the same financial challenges as most other upper tier Authorities across the country. Most Local Authorities are experiencing increasing demand in key services which is placing a strain on available resources. A recent survey has identified that 90% of Councils are experiencing increasing demand and are also overspending in meeting the needs of children and families.

Overall the Council remains in a strong and resilient financial position, despite the potential impact of the current range of demand and spending pressures.

3.2 Financial Sustainability

The MTFS is aligned with the council's financial sustainability strategy (2020-2030) which sets out our aim to achieve long-term financial sustainability.

3.3 Pressures

There are a number of financial pressures faced by the council and these are reported as part of the budget monitoring reports on a regular basis. A number of these are demand led pressures which are due to a wider national position and it is important that these pressures are identified and mitigated to ensure sound financial resilience in changing times.

3.4 New Investments

In order to focus our available resources and align them to the Southend 2050 vision it is important to have a longer term view of the financial requirements necessary to deliver on the 5 year roadmap and the 2050 outcomes. Both revenue and capital investments are assessed against these outcomes to ensure that all resources are focussed in the correct areas to achieve the greatest positive impact.

3.5 Income Generation

The Council needs to ensure that although it is responsible for delivering public services, there must be a commercial mindset in areas where the services are in competition with other businesses. Therefore it is increasingly important at a time when central grant funds are reducing that income is generated where possible and within reason. Service areas will be expected to take ownership for the fees and charges within their service areas and these shall be benchmarked to provide assurance that the charges are appropriate, proportionate and are applied correctly.

3.6 Council Tax

There is a 3.99% increase in Council Tax for 2020/21 (including 2% for adult social care). For planning purposes an increase of 1.99% has been assumed for future years. Changes in the number of households affect the tax base for Council Tax purposes, as does the number of Council Tax Support claimants. The Council Tax base for 2020/21 is 58,680.94 (equivalent Band D properties).

The Medium Term Forecast assumes an increase in the Council Tax base of 0.5% in 20/21 with further increases of 1% per year over the following 4 year period.
The Council plans to release accumulated Council Tax surpluses over the five year period.

3.7 Housing Revenue Account

The Housing Revenue Account is a ring-fenced account which stands apart 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 a 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 forced the Council to reduce rents by 1% each year from 2016/17 to 2019/20. In October 2017, the government announced its intention to set a long term rent deal for both Local authorities and housing associations. This allows rent increases of up to CPI at September each year plus 1 percentage point from 2020/21.

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

The Council has concluded a procurement exercise to choose a partner organisation with which to regenerate the Queensway estate. Swan Housing Association has been approved as the preferred bidder. The regeneration ambition will see the existing 441 predominately council owned homes redeveloped into a vibrant, mixed tenure community with enhanced public realm and facilities. This will mean that over time the estate will no longer form part of the HRA. The timing of the regeneration and asset transfer to the proposed partnership is not yet confirmed.

In addition South Essex Homes Ltd has been commissioned to produce an up to date stock condition survey, which 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.

3.8 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 investment programme 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 arrangements 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 Better Queensway, Airport Business Park, Care and Learning Disability re-provision.

Some further updates will be made during 2020/21 as follows:

- Corporate structure and governance changes to reflect the current structure of the Council;
- Updates to reflect the latest 2050 position and direction of travel;
- Methodology for the prioritisation and decision making process around Council assets (particularly the development pipeline) with associated governance;
- To update the schedule of charges relating to property transactions;
- To monitor the Government's position on Commercial Property Investment;
- To update the Property Metrics section;
- To ensure that the framework is in place to move forward with benefits derived from WorkLife and improved agility 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.

3.9 Capital Investment Programme

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 which 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.

The Capital Investment Strategy covers all capital expenditure and capital investment decisions, not only as an individual local authority but also those entered into under group arrangements. It sets out the long term context in which decisions are made with reference to the life of the projects/assets.

It is a key document and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It includes an overview of the governance processes for approval and monitoring of capital expenditure and how investment decisions take account of stewardship, value for money, prudence, sustainability and affordability. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

The capital investment programme is prepared and developed in accordance with the 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.

3.10 Treasury Management Strategy

The Treasury Management Strategy 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.

In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management strategy comprises:

- the Treasury Management Policy Statement;
- the Treasury Management Strategy;
- the Annual Treasury Management Investment Strategy.

The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk.

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 purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring.

The purpose of the Annual Treasury Management Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties.

The Audit Committee have responsibility for the scrutiny of the Treasury Management Strategy. The policy is approved by Council in advance of the year to which it relates. It is then monitored regularly and updated, as appropriate, to reflect changing circumstances and guidance with updates approved by Council as and when required.

3.11 Minimum Revenue Provision Policy

The Minimum Revenue Provision (MRP) is an amount to be set aside for the repayment of debt. Each Local Authority has a general duty to charge an amount of MRP to revenue which it considers to be prudent, with responsibility being placed upon the full Council to approve an annual MRP policy statement.

3.12 Prudential Indicators

The Prudential Code is the key element in the system of capital finance that was introduced from 1 April 2004 as set out in the Local Government Act 2003.

Individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the CIPFA code, (which has legislative backing). Prudential limits apply to all borrowing, qualifying credit arrangements (e.g. some forms of lease) and other long term liabilities. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment to do so.

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. The majority of capital expenditure will continue to be directly supported by Government through capital grant or by Council unsupported borrowing.

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.

Another objective of the Code is that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

To demonstrate compliance with these objectives each authority is required to produce a set of prudential indicators. These indicators are designed to support and record local decision making and are not for comparison with other authorities. The setting and revising of these indicators must be approved by Cabinet and Council.

In setting or revising its prudential indicators, the local authority is required to have regard to the following matters:

- service objectives (e.g. strategic planning);
- stewardship of assets (e.g. asset management planning);
- value for money (e.g. options appraisal);
- prudence and sustainability (e.g. risks, whole life costing and implications for external debt);
- affordability (e.g. implications for long-term resources including the council tax);
- practicality (e.g. achievability of the forward plan).

3.13 General Fund Balance

In relation to the adequacy of reserves, the Council's Section 151 Officer 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 updated in light of any changes to the assumptions within it.

- An absolute minimum level of General Fund reserves of £8M that is maintained throughout the period between 2020/21 to 2024/25
- An optimal level of reserves of £10M over the period to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances
- A maximum recommended level of reserves to £12M over the period to provide additional resilience to implement the Medium Term Financial Strategy

3.14 Reserves Strategy

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.

a) An absolute minimum level of General Fund reserves of £8 million that is maintained throughout the period between 2020/21 to 2024/25;

b) An optimal level of reserves of £10 million over the period 2020/21 to 2024/25 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;

c) A maximum recommended level of reserves of £12 million for the period 2020/21 to 2024/25 to provide additional resilience to implement the Medium Term Financial Strategy;

d) A Reserves Strategy to remain within the recommended range for reserves over the relevant period of 2020/21 to 2024/25.

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.

Housing Revenue Account

In relation to the Housing Revenue Account (HRA) in 2020/21 and the medium to long term:

a) 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) A 2020/21 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 2020/21 to 2024/25.

b) Forward projections for the HRA beyond 2020/21 are being remodelled to take into account the impact of the Better Queensway regeneration and the updated stock condition survey.

Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2019 to 31 March 2025 is shown in Annex 2. The balances at 31 March 2020 to 2025 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.

3.15 Outcomes Based Planning and Budgeting

The Council will target its resources to deliver the Southend 2050 programme and roadmap phases. Being an outcome focussed organisation will enable us to direct our investment, resource and business planning to activity that will achieve our outcomes and change the conversation to what to keep rather than what to cut.

3.16 Addressing the Budget Gap

The forecast budget gap in the Medium Term Financial Forecast over the next 5 years is summarised in the table below.

Year	2020/21	2021/22	2022/23	2023/24	2024/25	**Total**
Budget gap	£0M	£7.9M	£4.7M	£5.7M	£5.0M	**£23.3M**

In order to address and close the budget gap over this time period we must continue our drive towards full financial sustainability for the future. As we work collaboratively with our partners we may need to increase our focus on the delivery or commissioning of services in a targeted way to ensure that those in most need and who will receive the greatest benefit are the recipients of our services.

Longer term and focussed outcome based budgeting will be key to ensuring that all resources at the council’s disposal are targeted to have the greatest impact in delivering all the Southend 2050 outcomes.

3.17 Budget Monitoring and Forecasting

The corporate budget performance report is a key tool in scrutinising the Council’s overall financial performance. It is designed to provide an overview to all relevant stakeholders. It is essential that the Authority actively monitors its budgets throughout the year in order to ensure that the overall financial position is robust and sustainable and that strategic objectives are being achieved.

These reports will be prepared for Cabinet at regular intervals throughout the financial year and will provide an opportunity to highlight major variations from the approved spending plans enabling corrective action to be taken where necessary.

4 Conclusion

The Council has seen a sustained reduction in grant funding over the past few years whilst experiencing increasing demand for the services that it provides. The Fair Funding Review and a move towards 75% Business Rates retention may well present additional future challenges but with the Council's 2050 Ambition, the move to outcome focussed budgets and its robust financial resilience as evidenced by the CIPFA Financial Resilience Index, Southend-on-Sea Borough Council is in a strong position to shape and redesign services both locally and regionally.