Appendix 17

southend on sea
BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2020/21

February 2017

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1 Introduction

1.1 Objectives of the MTFS

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

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

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

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

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

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

1.2 Limitations of the MTFS

The further the MTFS looks to the future, the more uncertainties there are. Spending 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 released last summer have been finalised there remains an inherent level of uncertainty of the impact on the Council. As such the final year of this MTFS must be viewed very much as provisional thoughts on the potential outcomes from the Local Government Funding review rather than accurate forecasts.

1.3 Corporate and financial timetable

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

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

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

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

2 National Context

2.1 Spending Reviews (SRs)

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

Spending reviews are co-ordinated and managed by HM Treasury. The dates and length of spending reviews vary. Comprehensive spending reviews (CSRs) tend to be less frequent. They aim to take a longer term view and usually involve a series of zero-based reviews of public spending.

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

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

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.

Notwithstanding the UK vote to leave the European Union, and the change in Prime Minister, SR15 remains the most current spending review. The last year of this MTFS is outside of the SR15 period.

2.2 Public Spending and the Economy

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

The Autumn Statement

The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 23 November 2016. The Chancellor signalled a slowing of the pace of austerity given the need to retain a positive economic outlook. The Chancellor announced that the government has abandoned its commitment to reduce public sector net borrowing to a surplus by the end of this Parliament. It is now planning for a deficit of £21.9bn in 2019/20, compared to the surplus of £10.4bn planned for at Budget 2016, an increase in public sector net borrowing for 2019/20 of £32.3bn.

The Chancellor stated that the government is committed to the overall plans for departmental resource spending until 2019/20, which were set out at Spending Review 2015. Departmental resource spending will grow with inflation in 2020/21 and 2021/22.

The Chancellor announced that he was publishing a new draft Charter for Budget Responsibility, with three new fiscal rules:

- Borrowing should be below 2% by the end of this Parliament;
- Public sector net debt as a share of GDP must be falling by the end of this Parliament;
- Welfare spending must be within a cap, set by the government at AS 2016 and monitored by the Office for Budget Responsibility (OBR).

The Chancellor stated that the new fiscal framework is intended to provide the opportunity for additional investment in the productive capacity of the UK economy, the centrepiece of which is a new National Productivity Investment Fund (NPIF), which will provide for £23 billion of spending between 2017/18 and 2021/22. This fund will provide additional support in order to:

- Accelerate new housing supply;
- Tackle congestion on the roads;
- Support the market to roll out full-fibre connections and future 5G communications;
- Enhance the UK's position as a world leader in science and innovation.

The Autumn Statement set out the priority areas and levels of funding up until 2020/21 across the four areas identified; but specific projects will only be decided in the future. The funding available across the four areas is £2.4bn in 2017/18; £3.8bn in 2018/19; £5.0bn in 2019/20; and £5.5bn in 2020/21. A further £7bn will be available in 2021/22.

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

Business Rates

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

- From April 2017, there will be 100% business rates relief on investment in new fibre;
- From April 2017, rural rate relief will be increased to 100%;
- The projected costs of these two measures will be £10m in 2017/18, rising to an annual cost of £20m by 2020/21;
- The government has confirmed in its response on the consultation on transitional arrangements that the transitional relief cap under business rates revaluation will be lowered. This response is available here.

The government has not stated whether local authorities will be provided with s31 grant to compensate for the rate relief reforms; but, on the basis of past decisions, it would be expected that they would do so.

Regions

The Chancellor announced a number of measures relating to the regions, including:

- The government will award £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556m of this will go to the North of England, £392m to the Midlands, £151m to the East of England, £492m to London and the South East, and £191m to the South West. Awards to individual LEPs will be announced in the coming months;
- The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury;
- The government will also consult on lending local authorities up to £1bn at a new local infrastructure rate of gilts + 60 basis points for three years, to support infrastructure projects that are high value for money;
- The government has published a strategy setting out an overall approach to building the Northern Powerhouse, through addressing the key barriers to productivity that the region faces. The strategy is available here. The government will also publish a Midlands Engine strategy shortly;
- The government has also confirmed the Greater London Authority's (GLA) affordable housing settlement, under which the GLA will receive £3.15bn to deliver over 90,000 housing starts by 2020-21, and will devolve the adult education budget to London from 2019-20 (subject to readiness conditions).

Other measures announced

Housing. The government announced:

- A Housing Infrastructure Fund – a new Housing Infrastructure Fund of £2.3bn by 2020-21, funded by the NPIF and allocated to local government on a competitive basis. It is intended that this will deliver up to 100,000 new homes;
- Affordable homes – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership. The NPIF will provide an additional £1.4bn to deliver an additional 40,000 housing starts by 2020-21;
- Right to Buy – The government will fund a large-scale regional pilot of the Right to Buy for housing association tenants. Over 3,000 tenants will be able to buy their own home with Right to Buy discounts under the pilot.

The government will increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from April 2017.

This will be the last Autumn Statement. There will be no Autumn Statement in 2017 and beyond.

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 2017)

UK

The pace of growth was sustained following the Brexit result with the upward revision of Q3 GDP growth to 0.6% quarter on quarter. Consumer spending remained the driver of that expansion. Business investment was lower than a year ago and indications are that this period of subdued capital spending will continue. The December Purchase Managers Indices were all suggestive that growth will continue to run at the current rate in Q4. Retail sales volumes growth was the strongest since Q3 2014 but household spending was flat in Q3, though at 0.7% this is still a healthy level. However, these levels do not look sustainable due to the recent declines in consumer confidence. Mortgage approvals, though, extended their recent upward trend in November. There has been some slowing of employment growth, with a 6,000 decline in workers in the three months to October, the first negative figure since Q2 2015. The unemployment rate has remained at its post-crisis low 4.8%. There was further strengthening of consumer price pressures, with the consumer price index (CPI) inflation rising to 1.2% in November. A weaker pound and increasing commodity prices would add to the upward pressure on inflation. Analysts are expecting CPI to exceed the target level in early 2017, with 3% possible by early 2018.

USA

Q3 GDP was revised higher to over 3% year on year but excluding inventories and net trade there was a more modest growth of 1.6% in final sales to domestic buyers. This supports the view that growth will slow in Q4, as Q3 export growth is part reversed. Manufacturing output is slowing improving but consumption looks set to slow further in Q4. Nevertheless, consumer confidence rallied post-election, most likely due to tax cut expectations. Household balances remain fairly healthy, with debt levels comfortably below housing crisis peaks. Low interest rates mean that debt servicing costs are still near to record low levels. While household wealth is close to record highs in Q3, the gains in the stock market and house prices could push net wealth to a new record in Q4. The trade deficit widened in October but generally has been relatively unchanged for some years. There has been a slowing in employment growth through 2016, though an average 200,000 new jobs a month in the second half of the year is still strong. There was a slight acceleration of headline consumer price inflation in November. Housing costs are increasing, a trend that has been in place for around five years and looks set to continue. Domestic price pressures are on the rise with gains in unit labour costs suggestive of a similar increase in core CPI inflation. Nevertheless, there is the possibility of significant fiscal stimulus, which could require additional rate tightening to prevent inflation getting out of control. Stock markets have been buoyed by the possible fiscal stimulus since Trump's victory. The prospect of less regulation in future is also supportive of prices, with the finance and energy sectors benefitting. The consumer sector, though, has changed little. The US $ has gained quite sharply but this has only reversed the previous declines, and the gains are nothing like the surges in 2014 and 2015.

Eurozone (EZ)

The end of 2016 seems to have seen the EZ economy generate additional growth. While there have been big improvements in the French/Italian purchasing data, this still leaves them behind Germany and Spain. The tone was, though, more positive and this was mirrored by the EC Economic Sentiment Indicator, which reflects a sharp increase in annual GDP growth of 2-2.5%. Retailer confidence improved slightly in December, to a level consistent with annualised retail sales growth of around 2%. Consumer confidence also picked up and surveys suggest that industrial production may have picked up as the year end neared. The employment situation in the bloc continued to improve, albeit slowly, with just under one million more people in jobs at the end of November, than a year earlier, and three and a half million down on the crisis peak. There was only a small reduction to the number in November, which left the unemployment rate unchanged at 9.8%, the lowest level since July 2009. Spanish unemployment remains unacceptably high at 19.2%, with Italian unemployment increasing, at 11.9%. Germany is the best performer with a mere 4.1% unemployed. Headline inflation rose to 1.1% a 39 month high in December but inflation expectations remain low.

Asia

China has seen strong economic activity and rising inflation, which has raised anticipation of monetary tightening. Producer prices have surged but policymakers do not appear too concerned, as they indicate that the feed through to broader prices will be limited. The People's Bank has taken steps to tighten monetary conditions in response to credit risk concerns, but this has been done very gradually. Activity indicators suggest that industrial output should rise further, and

the labour market is set to strengthen, while firms' profitability is improving. External indicators point to increased domestic demand for imports, though the outlook for exports could be determined by the change in US politics, which threatens a redrawing of the US global role going forwards.
In Japan, inflation remains barely above zero and the currency has weakened since the US election result and there are concerns about the Trump administration's trade policy. Overall, the market does not expect policy changes for the foreseeable future.

Summary and interest rate view

Brexit uncertainties remain, but their impact on the UK economy has been muted. However, 2017 will see the UK government forced into making decisions about its role in Europe and setting out the terms that it wishes to achieve. The outlook for UK interest rates is flat with any increase not expected until Q2 of 2019.
Meanwhile the Federal Reserve has signalled that there are likely to be multiple rate increases in the US, in part down to the proposed policies of President Trump. Europe, though performing well, will be preparing itself for the national elections that, if they follow the unexpected outcomes in the UK and US, could pose a challenge to the Eurozone model.

2.5 Effect on Local Authority finances

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

The measures being taken by the Government continue to reduce the funding available from Revenue Support Grant and restrict the amount local authorities can raise in Council Tax. To lessen the effect of this, the Government has removed the ring-fencing from most grants so that local authorities can decide how best to apply them to services.

The Government has not offered a freeze grant in 2017/18. There has been a fundamental shift in the Government's view where it assumes local authorities will increase Council Tax by the referendum limit and for social care authorities such as Southend-on-Sea also will raise an additional amount to help fund Adult Social Care. The proposed budget includes both of these council tax increases.

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

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

- Business rates have also been “localised”. The Government has not given any local control over the business rate poundage – that is still 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 2017/18 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 2017-18**
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 – 2017/18

The Corporate Priorities are reflected in the 2017/18 General Fund budget being recommended to Council at its meeting on 23 February 2017. It includes proposals for savings and efficiencies totalling £6.921 million to balance the budget, these are summarised below by the relevant Department:

- Chief Executive's £990,000
- People £3,960,000
- Place £1,971,000

The 2017/18 General Fund budget also includes:

- Inflation Allowance of £990,000.
- Corporate Cost Pressures of £3,000,000.

The proposals for savings and efficiencies for 2017/18 are summarised in Annex 1 and are incorporated into the Medium Term Financial Plan in Annex 3.

6 Housing Revenue Account – 2017/18

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 has introduced new legislation that fundamentally changes the economics of the HRA. The Welfare Reform and Work Act 2016 forces the Council to reduce rents by 1% each year from 2016/17 to 2019/20. The Housing and Planning Act 2016 will potentially force Councils to sell high value voids to compensate housing associations for the Government's policy to extend the right to buy to these organisations by the imposition of a levy, and will also enforce fixed term tenancies.

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

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

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 main revenue Government grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available revenue resources to the Council from Council Tax, Business Rates and Government Grant.

8.2 Spending plans 2016/17 to 2020/21

The Council's proposed capital programme for 2016/17 and future years is summarised below:

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**Total Budget £000**
Approved Capital Programme (Nov 2016)	65,743	61,612	37,471	26,328	0	191,154
Reprofiles & Amendments	(10,642)	(2,760)	2,226	(465)	5,750	(5,891)
New External Funding	13	1,385	0	0	2,522	3,920
Proposed Additional Schemes	0	16,495	30,886	20,689	10,905	78,975
Current Proposed Programme	**55,114**	**76,732**	**70,583**	**46,552**	**19,177**	**268,158**

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 £70k for every £1m borrowed or if £9m 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 2017/18 to 2020/21. The 2017/18 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2017/18.

In summary, it is the Chief Financial Officer's view that the 2017/18 to 2020/21 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 2017/18 to 2019/20 are shown in the table below:

	Estimate 2017/18 £m	**Estimate 2018/19 £m**	**Estimate 2019/20 £m**
Operational boundary	285	310	320
Authorised limit	295	320	330

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

The estimates for the capital financing requirement for the years 2017/18 to 2019/20 are:

	Estimate 2017/18 £000	**Estimate 2018/19 £000**	**Estimate 2019/20 £000**
General Fund	223,768	240,338	256,563
Housing Revenue Account	98,740	98,740	98,740
Total	**322,508**	**339,078**	**355,303**

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 £35.5m is the estimated sum of medium and long term funds managed by external fund managers) during 2017/18 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 2017/18 the bank base rate will remain the same at 0.25%. The average interest earned by the Council on its in-house lending is likely to be 0.40% but this does depend on market conditions.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £250k in external interest earned and a difference of £1m in average balances would make a difference of £4k 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 18 January 2017:

- **Setting a Balanced Budget for 2017 - 20** - Risk that the scale of predicted funding reductions for 2017-20 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 failures in partnership working as a result of pressures on partner organisations reduces the ability of the Council to achieve its objectives and adversely affects service provision and council finances.

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

- **Local Infrastructure** - Risk that failure to maintain access to future rounds of the Regional Growth Fund and Department for Transport Challenge Fund will significantly restrict future infrastructure improvements.

- **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 (BCF) and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and council finances.

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

- **Secondary Education and School Places** - Risk that failure to provide the required number of school places and to narrow the gap in results at secondary schools will lead to an undesirable level of young people NEET and significant reputational damage for the Council.

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

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

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

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

11 Reserves Strategy

11.1 General Fund Reserve

In relation to the adequacy of reserves, the Council's Section 151 Officer (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 2017/18 to 2020/21;

ii) An optimal level of reserves of £10 million over the period 2017/18 to 2020/21 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 2017/18 to 2020/21 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 2017/18 to 2020/21.

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 2017/18 and the medium to long term:

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

This recommendation is based on and conditional upon

- A 2017/18 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with a MTFS

- Forward projections for the HRA beyond 2017/18 are being remodelled. In addition, this is linked to the HRA's own Medium Term Financial Strategy for the period 2017/18 to 2020/21.

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

11.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2016 to 31 March 2021 are shown in Annex 2. The balances at 31 March 2017 to 2021 are indicative, based on the assumptions in this report, and do not represent the probable figures that will be disclosed in future years Statement of Accounts.

12 Fees and Charges Strategy

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

In accordance with best practice, the Council:

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

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

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

13 Funding of the Net Budget Requirement

13.1 Government Funding – Grant and Finance Settlement

Government funding of its main grant (formerly Formula Grant) is now the third ranked provider of funding for the Council's total general fund budget (excluding schools) after Council Tax and Business Rates. As such it represents a reducing factor in determining the Council's revenue budget. The provisional Local Government Finance Settlement for 2017/18 was issued by the Department for Communities and Local Government (DCLG) on 15 December 2016 and this represents the Government's next three year spending plans. The final Local Government Settlement is now due to be announced in the week commencing 20 February 2017. Therefore, this report is based upon data in the provisional finance settlement.

The latest Finance Settlement maintains the key changes in the way that Local Government is now financed, which were introduced in April 2013. To recollect for Members the main changes arose from the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. The settlement now provides authorities with a combination of provisional Revenue Support Grant (RSG) allocation and confirmation of Business Rates top up grant.

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

The Adult Social Care precept is confirmed to continue, however, the Government has now introduced a flexibility to the precept in that the precept cannot exceed an additional 3% in 2017/18 and 2018/19 and an additional 2% in 2019/20 and that the maximum applied over this three year period (2017/18 to 2019/20) cannot exceed in total 6%.

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

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

- The provisional Settlement Funding Assessment (SFA) (a combination of actual RSG and estimated business rates income) for 2017/18 is £47.618 million. This compares to an adjusted SFA of £53.638 million in respect of 2016/17 (a reduction of £6.020 million and equivalent to a 11.2% reduction);

- The RSG element for 2017/18 within the provisional SFA is £14.681 million. This compares to an adjusted RSG of £21.338 million in respect of 2016/17 (a reduction of £6.657 million and equivalent to a 31.2% reduction);

- The settlement provides indicative figures for a three year period (2017/18 to 2019/20);

- The introduction of an Adult Social Care Support grant funded by a reduction in the New Homes Bonus grant;

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

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

- The 2017/18 referendum limit for Council Tax increases has been announced at a level of 5%, being 3% for expenditure on adult social care and 2% for other expenditure (2016/17 this was set at 4%, being 2% and 2% respectively);

- For 2017/18, 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 provisional settlement has not indicated what the terms of the Better Care Fund are for 2017/18 but that these are to be announced in January/February. At that point the Council will have a better understanding of the pooled budget from existing NHS and Council resources will be in comparison to 2016/17. The proposed budget assumes that the Council's share of the BCF will at least remain unchanged;

- In addition, as announced in the 2015 Spending Review, the Council is also due to receive the first tranche of a new "improved" BCF directly through a S31 grant to further assist with the inherent pressures in adult social care. As yet the amount has not been confirmed.

- The consultation on the provisional finance settlement ended on 13 January 2017 and this has informed the final settlement which is now due to be discussed in Parliament the week commencing 20 February with the final settlement being issued just before the debate.

- There has been a national revaluation of business rateable values, for implementation from 1 April 2017. Nationally the revaluation has resulted in a net increase of RV's, although some areas and some business types have seen reductions. As the revaluation process is designed to be revenue neutral (apart from an inflationary increase), the rate in the £ has been reduced so as to raise (nationally) the same amount of money from businesses. The provisional small business non-domestic rates (NNDR) poundage (multiplier) has been set at 46.6p (2016/17=48.4p) in accordance with the RPI inflation for September 2016. The associated non-domestic poundage has been set at 47.9p (2016/17=49.7p). Non-domestic rates are set nationally by the Government and collected locally by Councils (billing authorities). Under the current arrangements for the localisation of business rates a sum of 50% is returned to Government who then reapportion this sum back to Local Government as part of their main grant settlement. The remaining 50% is retained 49% by the Council and 1% is distributed to the Essex Fire Authority. The Council's actual income from business rates is therefore dependent upon the performance of the local economy, the success of any rating appeals and collection rates. The Police Authority receive their funding separately;

- The Public Health service grant allocation for 2017/18 has been notified as £9.712million (a reduction of £0.245million on 2016/17).

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 2017/18 is £144.1 million (2016/17 = £140.1 million). In practice the final DSG will exclude funding for Academies and is estimated to reduce by at least £81 million to £63.1 million.

In addition to funding from the DSG, schools will receive Pupil Premium grant, which will provide £1,320 / £935 of funding per primary/secondary pupil (2016/17 = £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)

13.3 Council Tax

There is a 4.99% increase in Council Tax for 2017/18 (including 3% for adult social care). For planning purposes an increase of 2.99% has been assumed for 2018/19, 3.99% for 2019/20 and 2% thereafter.

For 2016/17 Southend-on-Sea Borough Council had the fifth lowest Band D Council Tax (including Police, Fire and Leigh Parish) of all the unitary councils and the second lowest of the local authorities in Essex.

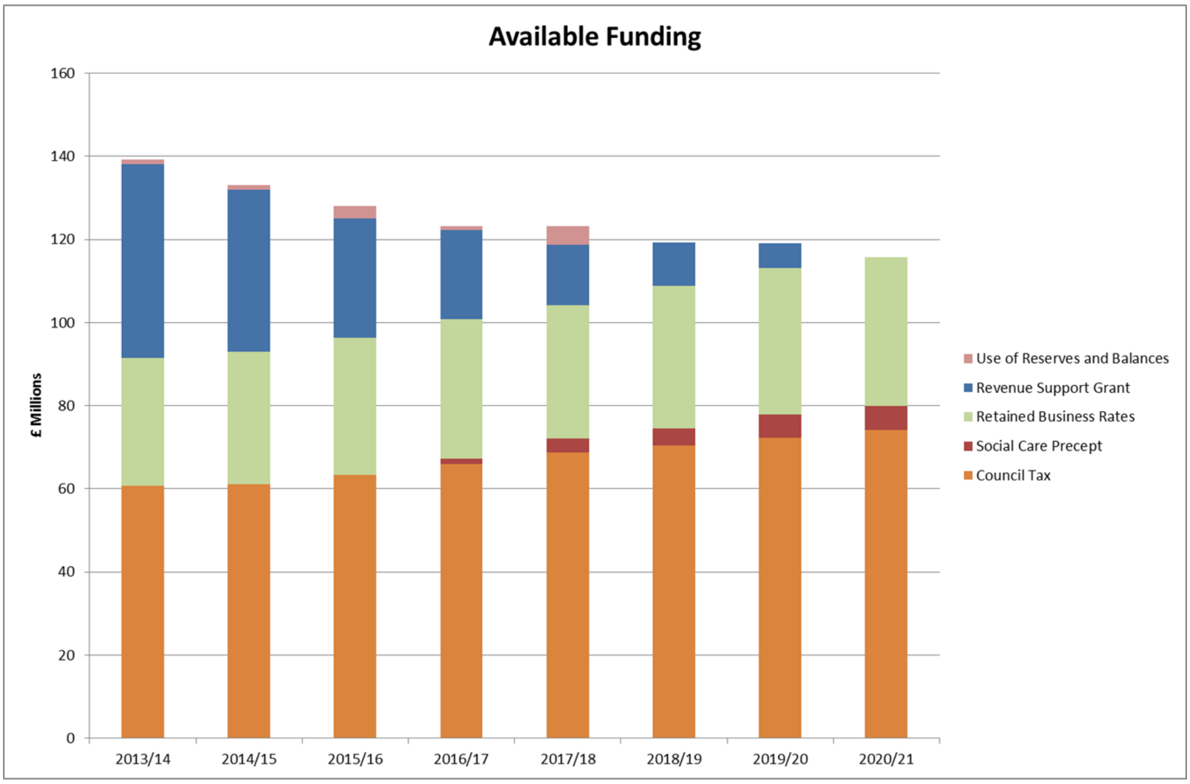
As an indicative guide, for Southend Borough Council every increase of 1% raises £686k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

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 2017/18 is 56,917.61 (equivalent Band D properties).

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

13.4 Total Available Funding

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



14 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2017/18 to 2020/21 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 2018/19. In addition it is assumed that allowable increases in the social care precept to support Adult Social Care will also be implemented.

Revenue Support Grant – the final figure for 2017/18 has yet to be announced. The MTFS therefore uses the provisional settlement for 2017/18, and the provided indicative settlements for future years. All RSG is assumed to end in 2020/21.

Business Rates – the figure for 2017/18 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 2018/19.

Support from Collection Fund – a surplus have been declared for 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 2017/18 through to 2020/21. 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 – A new triennial actuarial valuation, as at 31 March 2017, has been undertaken, that will be effective from 2017/18. The financial impact has been built into the MTFS.

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.

14.2 Sensitivity analysis

The effect of changes to these assumptions on the budget gap for 2018/19 and on the Council Tax, are shown in the following table:

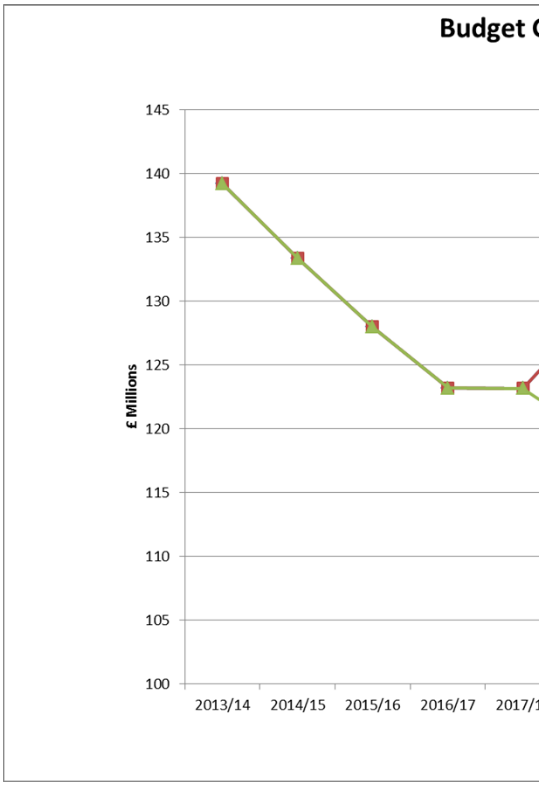
Assumption in MTFP for 2018/19	Change in assumption	Effect on the budget gap for 2018/19	Effect on Council Tax
Council Tax increase of 1.99%	No Council Tax increase	Increase of £1,441k	
Revenue Support Grant as per estimated settlement (29.7% reduction on 2017/18)	Formula Grant decreased by 35%	Increase of £775k	Increase of 1.2%
Retained Business Rates growth at 2.0%	Retained Business Rates growth at 1%	Increase of £204k	Increase of 0.3%
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 £6.9M will be achieved in 2017/18	95% of identified on-going savings of £6.9M will be achieved in 2017/18	Increase of £345k	Increase of 0.5%

14.3 Financial Planning 2017/18 to 2020/21

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 2017/18 has been closed by the proposed savings totalling £6.9 million as set out in Annex 1. The budget gaps remaining for the financial years 2018/19 to 2020/21 are set out below:

	2017/18	2018/19	2019/20	2020/21	Total
Remaining budget gap	£0m	£10.3m	£5.1m	£7.5m	£22.9m
Budget gap as a % of the 2017/18 net budget requirement	0%	8.4%	4.1%	6.1%	18.6%

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 2018/19 and Beyond

In addressing the national economic situation the Government has continued to emphasise 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 Statement on 23 November 2016 with further restriction placed on the Government's public spending plans up to 2021 with the commitment to its departmental spending plans set out in the Spending Review 2015. The tightening and reduction of Government funding contributions to local government funding and the new Government's changes from April 2013 for the funding of Local Government, means that the current financial challenges for 2018/19 and beyond will continue. This needs to be seen as part of a continued 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 2017/18 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.

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

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

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

The Council will also seek to explore innovative income generation opportunities that will assist with increasing the Council's revenue sources to assist with bridging the significant budget gap the Council has to deliver. In addition, there is the intention to look greater at commercial opportunities for services of the Council.

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 Autumn Statement in late 2016, that further savings in the order of £22.9 million will be required form the Council's circa £119 million annual net budget for the three years 2018/19 to 2020/21.

It is clear that the budget savings presented for 2017/18 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.