



OVERVIEW & SCRUTINY COMMITTEE

Thursday, 8 October 2015

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2016/17 - 2019/20 (REP1234)

EXECUTIVE SUMMARY

1. The Medium Term Financial Strategy (MTFS) provides a baseline forecast of income and expenditure and looks at the overall financial climate. It provides a framework within which the Council's overall spending plans will be developed.
2. The Government is continuing with its programme of fiscal consolidation aimed at reducing the national fiscal deficit, and is undertaking a Spending Review that is due to report in November 2015. This will set the parameters for the Local Government Finance Settlement in December 2015.
3. Councils play a key role in supporting a range of initiatives designed to reduce the costs of welfare, stimulate the local economy, and to increase the national housing stock.
4. Recognising the changing needs highlighted above, this report sets out the assumptions made in identifying the subsequent shortfall in resources over the MTFS period. This has been developed in advance of Devolution negotiations with Central Government, which will undoubtedly have a significant impact.
5. Councils' strategic plans continue to be challenged due to the significant uncertainties surrounding some of the key aspects relating to their services and funding streams.
6. In February 2015 when the 2015/16 revenue budget was approved, the MTFS cumulative headline shortfall in resources was £2.561m in 2016/17, £4.019m in 2017/18 and £4.591m in 2018/19.
7. The updated position forecast in this report indicates a considerable improvement on these shortfalls, although there is still some way to go before a balanced position is achieved for 2016/17. The MTFS also features challenging savings targets, together with assumptions on funding levels that could easily be changed as a result of emerging Government policy.
8. The Council has developed its strategic approach to addressing the medium-term financial gap. Cost reductions, efficiencies, and the redesign of services still figure heavily, together with the development of a more entrepreneurial / commercial model, which will include proposals for an Asset Investment Strategy.
9. Having regard to the financial risks surrounding the budget planning process the Council maintains the level of General Fund balances at around 3% - 5% of its budgeted gross expenditure of some £74 million. At 1 April 2015 uncommitted General Fund balances stood at £4.016m.
10. The draft MTFS will be subject to further updates for any changes including those following the Spending Review and the Chancellor's Autumn Statement on 25 November, and the Local Government Finance Settlement later in the process.

11. At the end of the 2016/17 budget process, in February 2016, the Council is required to approve a balanced budget for the following financial year and set the Band D rate of Council Tax. This report sets out the context and initial parameters in order to achieve that objective.

Is the report Open or Exempt?	Open
Wards Affected:	All
Cabinet Member:	Councillor Mike Barnard Cabinet Member for Resources and Welfare Reforms
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1 INTRODUCTION

- 1.1 The **Medium Term Financial Strategy** (MTFS) sets the strategic financial direction for the Council and is regularly updated as it evolves and develops throughout the year to form the framework for the Council's financial planning. To ensure Members have a sound basis for planning and decision making, the MTFS is reviewed and updated at key points in the year; these are:
- Midyear – as a framework for initial detailed budget discussions for the forthcoming financial year;
 - January – an update to include additional information received at a national level and corporate issues identified through service planning, and the detailed budget build; and
 - February – with the final Budget for the new financial year.
- 1.2 The purpose of the MTFS is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are managed effectively and are able to deliver the aspirations of the Council as set out in the Business Plan, over the medium term.
- 1.3 The MTFS provides an integrated view of the Council's finances, recognising that the allocation and management of its human, financial and physical resources play a key role in delivering its priorities and ensuring that the Council works effectively with its partners locally, regionally and nationally.
- 1.4 It supports the delivery of the Council's vision that Waveney is a place for "Maintaining and sustainably improving the quality of life for everybody growing up, living in, working in and visiting the area" through its **Draft Business Plan**.
- 1.5 The Council's Vision, Ambition and Values developed through its Strategic Business Plan supported by the MTFS, has been achieved by a combination of:
- securing a balanced budget with a reduced reliance on the use of reserves and general balances to support its everyday spending;
 - setting modest increases in Council tax when appropriate; and
 - delivering service efficiencies and generating additional income where there are opportunities to do so.

2 ECONOMIC AND PUBLIC FINANCES BACKGROUND

Economic Growth

- 2.1 The national economic background affects the costs the Council incurs, the funding it receives, and contributes to the demand for services as residents are affected by economic circumstances.
- 2.2 In 2014 GDP growth of 3.0% was the highest since before the recession in 2006. Growth slowed in the first quarter of 2015, to 0.5% for the quarter, but picked back up to 0.7% for quarter 2. Growth is expected to continue at this pace for the rest of the year, boosted by accelerating earnings growth, low inflation, and improving service sector output. UK export growth has been dampened by weak growth among trading partners, and the Government's fiscal consolidation has also impacted on domestic demand. Offsetting these factors have been growth in household incomes, increasing domestic confidence in the economic outlook, and improved credit conditions. Key risks to the economic outlook come from productivity growth failing to improve as expected; the effects of the Greek crisis on the Eurozone economy; and slowing of the growth rate in China.

2.3 The Bank of England's overall forecast for growth in Gross Domestic Product (GDP) outlined in its August Inflation Report is:

- 2015 2.8%
- 2016 2.7%
- 2017 2.6%

Inflation

2.4 Consumer Price Index (CPI) inflation fell back to 0.0% in August after a slight rise to 0.1% in July from 0.0% in June. Inflation at these extremely low levels mainly reflects past falls in the prices of energy, food and other goods due to global factors. In the short term, inflation is expected to remain close to zero before rising around the turn of the year. The Bank of England considers that the contribution to inflation from energy, food and other goods is likely to increase by around 0.5% by the end of 2015, and by another 0.5% in the first half of 2016 as past price falls drop out of the annual inflation comparison. Section 4 of this report covers current MTFs assumptions in comparison with this outlook.

2.5 As wage growth continues to return to more normal rates as spare capacity in the economy is used up, inflation is expected to pick-up with the CPI stabilising around the 2% target over the medium term, although there is considerable uncertainty over this as a result of global factors. The Bank of England's overall forecast for CPI in its August Inflation Report is:

- Q4 2015 0.4%
- Q4 2016 1.6%
- Q4 2017 2.1%

2.6 Given this outlook of a gentle rise in inflation over the next two years back towards the 2% target, the prospects for interest rates are also of a gradual increase in rates from their historic low of 0.5%. In August, the Bank of England Monetary Policy Committee voted 8-1 to retain base rate at this level, and this, combined with an unexpected increase in unemployment in July and market turmoil resulting from economic developments in China, suggests that there will not be any increase until at least next year.

2.7 The inflation rate impacts on the cost of services the Council purchases, as the Council delivers much of its service provision through contractual arrangements where inflationary pressures have to be negotiated and managed. These projections indicate that inflation will remain relatively low for the long-term, which although still a pressure for the Council is a relatively small increase in costs. Specific contractual inflation has been incorporated into the Council's financial position, where appropriate, based on the actual contractual indices

Public Finances and Public Spending – Summer Budget

2.8 The Chancellor of the Exchequer, George Osborne, presented his Budget to Parliament on 8th July 2015. The Budget contained some details specifically related to Local Government; measures that affect the wider economic environment that local authorities operate in; and welfare changes that could have a significant impact on both the provision of some local authority services and local authority income streams.

2.9 The budget deficit is to be cut at the same pace as during the last Parliament, securing a £10bn budget surplus a year later than planned in 2019/20, as shown below:

Updated Public Sector Borrowing Forecasts:

- 2015/16 £69.5bn
- 2016/17 £43.1bn
- 2017/18 £23.3bn
- 2018/19 £6.4bn

2.10 In its manifesto for the 2015 General Election, the Conservative Party stated that it would introduce the principle that UK governments should always run a budget surplus in 'normal

economic times'. The new Fiscal Charter is a commitment to budget responsibility. As the Government moves from deficit to surplus, the Charter commits to keeping debt falling as a share of GDP each and every year, and to achieving that budget surplus by 2019-20. Thereafter, governments will be required to maintain that surplus in normal times, when there isn't a recession or a marked slowdown. Only when the OBR judge that there is real GDP growth of less than 1% a year, as measured on a rolling four-quarter basis, will that surplus no longer be required.

- 2.11 £37bn of further spending cuts are intended by 2020, including £12bn in Welfare and £5bn from tax avoidance / evasion. The Budget set out how the £12bn in welfare savings will be found, with the cuts in Government departmental spending to be outlined in the Spending Review, which will be announced on 25 November 2015. Public sector pay is to continue to rise at 1% per annum over the next 4 years.
- 2.12 In June, the Chancellor announced that £3 billion of the departmental savings would occur "in-year": that is, departmental budgets for 2015/16 would be reduced by £3 billion. The majority of the £230m in-year reduction to the Communities and Local Government budget will be the result of a reallocation of public health funds originally assigned from the Department of Health to DCLG. The remainder will also come from the central department in the form of efficiency savings and some land sales.
- 2.13 From 2017/18, higher income households (over £40,000 in London and £30,000 elsewhere) will be required to pay market rents for social housing tenancies. The additional income from this will be required to be paid over to the Government. The implementation details of this measure are not yet known, although it will entail administrative implications for the HRA, and potential financial implications which are yet to be quantified.
- 2.14 Starting in 2016/17, rents paid in the Social Housing sector, both councils and housing associations, will be reduced by 1% per annum over the next four years, and this measure is included in the Welfare Reform and Work Bill. This measure has very significant implications for the Housing Revenue Account, estimated to be a reduction in rent income of £7.7m over 4 years, which will need to be considered as part of the HRA Budget and Business Plan process.
- 2.15 The introduction of a new national living wage of £7.20 per hour in 2016/17 replacing the minimum wage (currently £6.50 per hour) was announced, and this will rise to over £9 per hour by 2020. The implications of this for the Council are referred to in section 4.
- 2.16 In the Budget, it was also announced that there will be a consultation later in the year regarding Local Government Pension Schemes' pooled investments and shared savings, which could potentially signal a move towards the voluntary or enforced merger of LGPS schemes.

Welfare Savings

- 2.17 £12bn of welfare savings need to be delivered on top of £21bn of savings delivered in the 2010 Parliament. The pace of planned welfare cuts will now be slower than originally anticipated, with the target to be achieved in 3 rather than 2 years, with £8bn by 2017/18 and a further £4bn by 2018/19. Cuts to welfare spending will save £19bn by 2020.
- 2.18 It is estimated that the previously announced measures – freezing most working-age benefits for two years, reducing the household benefits cap from £26,000 to £23,000, and removing Housing Benefit from under 21s on Jobseeker's Allowance – would save around £1.2 billion a year (with the benefits freeze accounting for £1.0 billion).
- 2.19 Total expenditure on social security and tax credits is forecast to be £218 billion in 2015-16. The Government is committed to the State Pension "triple lock" and has also pledged to "maintain all current pensioner benefits including Winter Fuel Payments, free bus passes, free prescriptions and TV licences."

- 2.20 Working age benefits will be frozen for 4 years, including tax credits and local Housing Allowance, excluding maternity and disability allowances. The Benefits cap will be lowered to £23k in London and £20k elsewhere
- 2.21 Tax Credit support to families will only apply to the first two children, affecting those born after April 2017. The earnings thresholds for withdrawal of tax credits will be reduced, income rise disregards reduced, and taper rates for reduction increased. Overall, Tax Credits savings will amount to around £9bn. Universal Credit support will also only apply to the first two children.
- 2.22 The welfare reform and savings programme of the last Government has already had a considerable impact on local authorities. Principal changes over the course of the last parliament included reforms to Housing Benefit such as the spare room deduction (Bedroom Tax) and the cap on household benefits, and the replacement of Council Tax Benefit (CTB) by Local Council Tax Reduction Schemes (LCTRS). With pensioner benefits protected from these changes, the impact of reductions has fallen on working age claimants. These changes have already entailed some reductions in net funding to Councils. The funding for LCTRS compared with CTB was reduced by a reported 10% (although in practice the reduction was greater) in 2013/14, and has now been subsumed into overall Settlement funding and is not separately identifiable. HB and LCTRS Administration Grants have also been reduced in subsequent years, with a reduction of around £60k between 2014/15 and 2015/16.
- 2.23 The measures outlined in the Budget could potentially have indirect impacts on areas such as collection rates and bad debts, as any reductions in entitlement will obviously have an impact on the ability of claimants to pay any proportions of liabilities that are due from them.

3 FUNDING SOURCES

Overview

- 3.1 Changes to the Local Government Finance system in recent years have presented a range of opportunities and threats to the Council. The introduction of the Local Business Rates Retention System in 2013/14, together with the government's programme of fiscal consolidation since 2010, have combined to both reduce the quantum of funding available to the Council, and to shift the balance of funding significantly away from central to local sources. This has also been accompanied by an increased risk to the sustainability of Council finances. In particular, the Business Rate Retention System and the New Homes Bonus, which provide very significant sources of incentivised income, delivering a range of Council objectives, are subject to specific risks over the next few years. Consequently, the Council's approach has been to recognise the risks to incentivised income areas, to not become over reliant on these sources to balance the budget, and to ensure that these sources form part of the overall strategy of long term financial sustainability.
- 3.2 The following paragraphs provide some information on the outlook for the Council's key funding sources over the medium term, and largely consist of the identification of potential downside risks. In comparison with previous years, there is a greater degree of uncertainty over the figures in the Local Government Finance Settlement, combined with a later timescale for the availability of indicative information. In December 2013, the government issued both the Provisional 2014/15 Settlement and the indicative 2015/16 Settlement. This provided a useful degree of certainty regarding funding, and the Final Settlement for 2015/16 did not differ significantly from the indicative figures.
- 3.3 However, there are no indicative figures available for 2016/17, and the 2016/17 Settlement and the medium term position will be largely determined by the outcome of the Government's Spending Review, which will be reported on 25 November together with the Autumn Statement. The Local Government Finance Settlement is unlikely until immediately before Christmas.
- 3.4 A further issue that could impact significantly on the overall position of local government funding is the current Devolution agenda, referred to later in this report in the context of Suffolk. Until now, Devolution deals, such as that for Greater Manchester, have effectively been formulated outside of the core local government system, but the extension of these nationwide will inevitably mean that they need to be reconciled with the system. An example of this is the

impact on the Business Rates Retention System if a common element of many deals is the retention of all business rates locally.

Government Funding - Revenue Support Grant

- 3.5 Revenue Support Grant (RSG) is the principal remaining source of central Government funding to the Council, and has been substantially reduced in recent years. One of the threats to the Council's financial standing is further substantial reductions in RSG. The Government's fiscal consolidation programme to reduce national debt, and public sector spending as part of that process, resulted in further reductions to grant in 2015/16 of over £1.2m over 2014/15. In terms of the percentage year-on-year reduction in Spending Power, Waveney was one of the worst affected authorities in the country.
- 3.6 Cuts in Government departmental spending, including to the DCLG budget, will be outlined in the Spending Review. The position on the precise scale of cuts to RSG will probably not be known until the Local Government Finance Settlement in December, although this will undoubtedly be an area of significant reduction. Waveney is significantly more exposed to reductions in Government grant than the other authorities in Suffolk – around 47% of the Council's Spending Power is accounted for by the Settlement Funding Assessment, compared with around 34% for the other Suffolk districts.
- 3.7 As an update to its Future Funding Outlook 2015 the Local Government Association (LGA) has modelled the trajectory of grant funding based on a calculation of the overall reduction in Settlement Funding Assessment. The central assumption in this is based on an analysis of OBR projections for Departmental Expenditure Limits, and at this stage, these probably represent the most reliable indicators of year-on year reductions to RSG. A comparison of these RSG projections with those used in the February 2015 MTFs is shown below. It can be seen that the cuts projected by the LGA are of a lesser magnitude than those previously included in the MTFs and are on a more even trajectory. However, although it would now appear reasonable to include these latest projections in the MTFs, it is worth sounding a note of caution that although these take into account the Summer Budget, they do not pre-empt the outcome of the Spending Review.

Waveney DC Revenue Support Grant (RSG) Projections					
	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
MTFS February 2015	(2,849)	(1,908)	(1,350)	(1,232)	(1,232)
LGA Projection - MTFs September 2015	(2,849)	(2,505)	(1,896)	(1,363)	(1,076)
Difference		(597)	(546)	(131)	156

Business Rates Retention

- 3.8 The changes under the 'Localisation of Business Rates' now mean that local authorities are incentivised to promote economic growth in their area. As from 1st April 2013, local authorities retain a share of the net income that they receive in Business Rates as funding to meet costs of service provision.
- 3.9 In total, the Council's local share of Business Rates collected during the year is 40%, after deductions for mandatory and discretionary reliefs, the cost of income collections including losses and for the cost of changes to rateable values as a result of appeals with the remaining amount paid to the national Government (50%) and Suffolk County Council (10%).
- 3.10 The retained Business Rates income is then subject to a tariff, and a levy on any Business Rate growth that may be achieved (both annually increased by inflation) which are paid to the national Government.
- 3.11 The tariff payment funds other local authorities where their Business Rates are considered to be disproportionately low, while the levy payment funds a national safety net, which provides local authorities with funding protection against Business Rate reductions in excess of 7.5% each year. The level of tariffs and levies is unique to each local authority.

- 3.12 The Council's budget includes business rate income at the government baseline level. Some use of section 31 grant income related to business rates is required to reach this income level, with the remainder of this grant being contributed to reserves.
- 3.13 Variances between estimated and actual business rate income, primarily as a result of appeals, are realised in the form of deficits or surpluses on the business rates element of the Collection Fund. For each year, the amount of business rates income credited to the General Fund is the amount estimated on the NNDR1 return to Government submitted in January in the preceding year, including a calculation of the estimated Collection Fund deficit or surplus to be charged to the General Fund. As a result, in practice, variances between business rates estimates and actual figures are reflected as an element of the Collection Fund deficit or surplus two years after they take place.
- 3.14 The updated MTFS position in Appendices A and B shows a business rates Collection Fund surplus in the Revised 2015/16 Budget and an estimated deficit for 2016/17, primarily as a result of potential increases in the provision for appeals. This is largely as a result of a recent Valuation Tribunal ruling on the basis of valuation of purpose-built doctors' surgeries, which would significantly reduce the rateable value of these and which has generated a number of new appeals. Business rate forecasts for 2016/17 onwards will need to be revised in subsequent updates of the MTFS when the NNDR1 for 2016/17 is finalised in January 2016.
- 3.15 There are a number of issues in the medium term which mean that business rate income remains an uncertain income stream that cannot necessarily be relied upon.
- 3.16 Firstly, a national revaluation of business rates is currently underway and a new valuation list will come into effect from 1 April 2017. Revaluation is intended to be financially neutral as far as local authorities are concerned, and the scheme will need to be recalibrated for 2017/18, an exercise that DCLG recognise is extremely complex. Tariffs and top ups will be revised in the 2017/18 Local Government Finance Settlement, but baseline funding will not be revisited until reset of the system in 2020. Combined with the complexity, the valuation list will continue to be changed until April 2017, and there will be considerable uncertainty about the estimated 2017/18 position.
- 3.17 In addition, the valuation exercise will inevitably trigger a huge number of appeals, leading to a great deal of further uncertainty in the system and the need for significant appeal provisions to be made.
- 3.18 Second, the entire Business Rates Retention System will be reset in 2020, including baselines, tariffs and top-ups, levy rates etc., and at this point, the local benefits of growth in preceding years will effectively disappear. Further changes to the Business Rates system at this stage, or even before, cannot be ruled out.
- 3.19 Finally, the Business Rates system is currently subject to a review by HM Treasury, which is intended to report before the Government's Budget in 2016, and which could recommend fundamental changes to the current system.

Suffolk Business Rate Pool

- 3.20 In order to reduce the amounts paid to Government in levy, in 2012, all Suffolk Councils agreed to enter a pooling arrangement which would allow them to retain a larger proportion of their share of growth by reducing their individual rate of levy.
- 3.21 Waveney continues to be a member of the Suffolk Pool in 2015/16, and has both made a substantial contribution to the Pool and received benefits from the Pooling arrangements in previous years. The Council will continue to be a member of the Pool in 2016/17.

Council Tax, Tax Base and Collection Fund Surplus

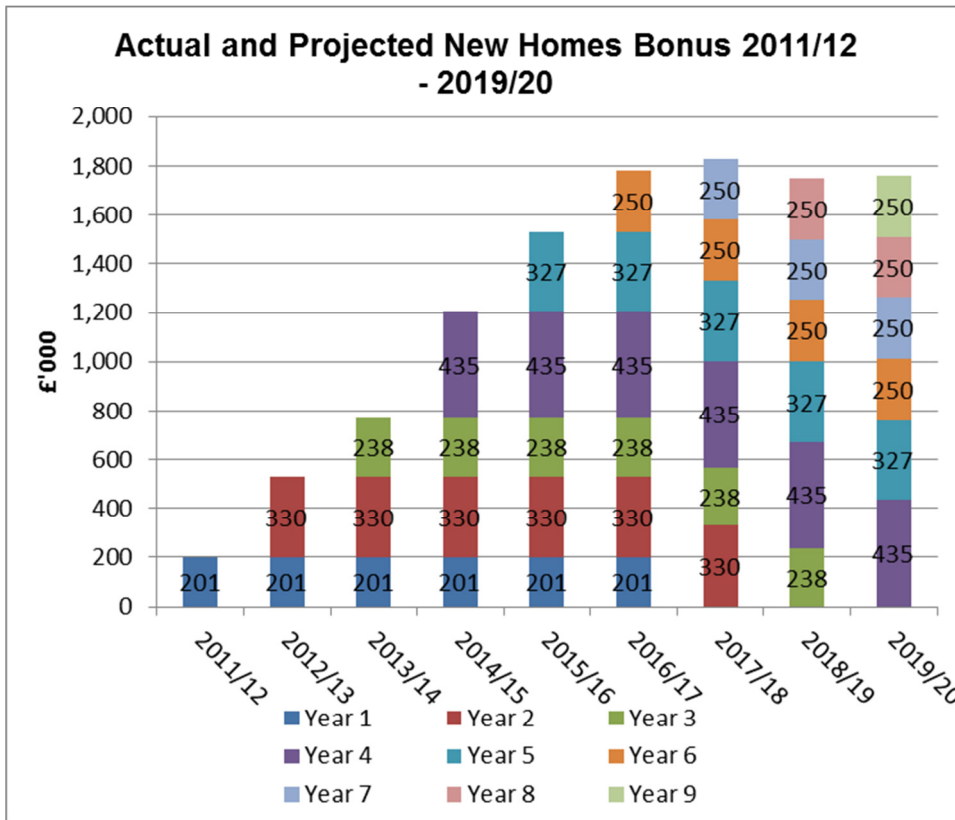
- 3.22 Waveney has frozen its council tax at £147.51 for six consecutive years. Funding nearly 60% of the Council's net budget, it is one of its most important income streams.

- 3.23 Following the 2010 general election, the government committed itself to keeping the council tax bills down and since 2011/12 have provided funding to councils who have frozen their taxes. The terms of the grant on offer have varied in value and duration. Funding was initially the equivalent of a 2.5% increase and time limited. However, this has now fallen to 1% but with the commitment that it will be built into ongoing funding settlements. As the grant offer is based on each council's ability to raise tax, the biggest winners in the current system are those with the largest tax bases.
- 3.24 At the same time as offering funding for council tax freezes, the government has replaced the old capping rules and introduced local referenda to veto excessive tax increases. Every year, alongside the Settlement announcement, the Secretary of State for Communities and Local Government announces the tax rate increase that they deem excessive and if a council sets a rate that breaches this, the council would have to take the vote to the local electorate to approve it.
- 3.25 When the referendum rules were introduced, the excessive rate was 3.5%. However, this has been reduced to 2%, and it is reasonable to assume that this will continue to be the case for 2016/17.
- 3.26 Whilst significant increases in income over the future years as a result of charging a higher rate of tax will therefore be unlikely, there does however remain scope for growing the tax income through growth in the tax base.
- 3.27 As well as growth in the number of properties, one of the other key variables in the calculation of the tax base is an estimated collection rate for the percentage of sums due which are actually collected. Following the changes to the Local Council Tax Reduction Scheme and the estimated impact of welfare reform, the anticipated overall collection rate was reduced in 2013/14 to 97.75%. Prior to 2013/14, the collection rate had been estimated at 98.75%.
- 3.28 In 2014/15, some growth in the council tax base, combined with collection that was an improvement on the estimate used in 2013/14, produced a surplus on the Collection Fund in respect of the council tax element. Based on this and current performance there may be potential for the in-year Council Tax collection rate to be increased from 97.75% to 98.25%. The consequent increase in the tax base would result in additional council tax income of around £26k. The collection rate will continue to be closely monitored throughout the year.
- 3.29 The Council Tax Collection Fund is monitored closely throughout the financial year, and any estimated deficit or surplus generated from the Collection Fund in 2015/16 will be included in the budget for 2016/17.

New Homes Bonus

- 3.30 The Government has established the New Homes Bonus, which is funding allocated to councils based on the building of new homes and bringing empty homes back into use. The intention for the New Homes Bonus is to ensure that the economic benefits of growth are returned to the local authorities and communities where growth takes place.
- 3.31 The majority of the resource to fund the New Homes Bonus is top-sliced from local government baseline funding, so if the grant were to end, the Council would see a reduction in its top-slice, but would also see an end to the grant income.
- 3.32 Over the past few years, NHB has become an extremely important source of incentivised income - in 2015/16, NHB income amounts to £1.531m. The future of NHB has been subject to a great deal of uncertainty – as a top slice from local government grant funding it could easily be reallocated by the Government back into this. However, latest indications are that NHB will continue over the medium term, and it is likely that the Year 6 round in 2016/17 will be on the current basis, which could mean around £250k for the Council. However, the programme is under review and for subsequent years the amount and duration of this income could easily be changed.

3.33 It is worth noting that previous rounds of NHB funding begin to drop out of the total NHB received from 2017/18 onwards - £201k falls out of the total in 2017/18 and a further £338k falls out in 2018/19. The following chart provides a profiling of the NHB income since 2011/12 which is then projected up to 2019/20. The Council Tax Base (CTB1) return to Government in mid-October provides the basis for the following year's NHB allocation, and these projections will be updated in the light of this.



4 MEDIUM TERM FINANCIAL POSITION

Summary of Available Resources

4.1 Based on the analysis of funding sources shown in Section 3, the total resources forecast to be available over the medium-term are shown in the table below:

Waveney DC Funding 2015/16 - 2019/20 - Summary					
	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
New Homes Bonus (Net)	(1,450)	(1,750)	(1,750)	(1,750)	(1,750)
Revenue Support Grant	(2,849)	(2,505)	(1,896)	(1,363)	(1,076)
Total Business Rates Income	(4,329)	(4,103)	(4,602)	(4,693)	(4,790)
Council Tax Freeze Grant	(60)				
Council Tax	(5,129)	(5,129)	(5,129)	(5,129)	(5,129)
Collection Fund Surplus - Council Tax		(100)			
Total Funding	(13,817)	(13,587)	(13,377)	(12,935)	(12,745)

Budget Planning Assumptions

4.2 The Council's financial planning assumptions are shown in the table below:

	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Goods and Services	0	0	0	0
Fees & Charges	Sep RPI	Sep RPI	Sep RPI	Sep RPI
Pay	1.0	1.0	1.0	1.0
Utilities and energy	3.0	3.0	3.0	3.0

- 4.3 The Council's financial strategy assumes that any inflationary pressures incurred on goods and services expenditure are contained within existing budgets, or through more efficient spending. This will be kept under review to ensure this planning assumption remains adequate. This does not impact on inflation for specific contracts where the budget planning assumptions reflect specific contract increases.
- 4.4 In the Summer Budget, the Chancellor imposed further restraint on public sector pay, setting increases of 1% for a further 4 years from 2016/17, although the Government does not set pay increases for local government employees. The February 2015 MTFS assumed a 2% increase in pay for 2016/17 onwards, and this has now been downturned to 1%. The actual increase included in the 2015/16 budget was for a 1.1% 15 month award from January 2015. Further growth for increments is also assumed in each of the future years, with additional funding for the equalisation of pay between the two councils following the implementation of shared services.
- 4.5 As referred to in section 2, the introduction from 2016/17 of a national living wage was announced in the Government's Summer Budget. The Council decided in February to introduce the living wage, which is estimated to cost around £13k pa, and which was not reflected in the February MTFS. There will be further increases on direct council pay in 2019/20 and 2020/21 as the national living wage overtakes the local living wage, but the financial implications are unlikely to be significant. However, the indirect effects on the Council of the national living wage through its contractual arrangements with Waveney Norse and Sentinel are more significant, and these have been reflected in the budget pressures in Appendix A.
- 4.6 The Pensions Act 2014 received Royal Assent in May 2014 and introduces a new Single Tier Pension from April 2016. The introduction of this will end the practice of contracting-out whereby Local Government Pension Scheme (LGPS) employers and their employee pension scheme members pay a lower rate of National Insurance Contributions (NICs). The initial impact of this change for Waveney has been assessed as £235k which has been included in the MTFS from 2016/17 onwards.
- 4.7 Superannuation payments due to the Suffolk County Council Pension Fund for the past service element of pension costs have been set up to 2016/17, based on the most recent triennial valuation of the fund. The latest triennial actuarial valuation of the assets and liabilities of the Suffolk County Council Pension Fund was completed as at the 31 March 2013 and the next review will be carried out during 2016/17 with an effective date of 31 March 2016. The MTFS includes provisional increases of £263k in 2017/18 and £413k in 2018/19.
- 4.8 Contracts have been inflated based on the specified inflation indices within each individual contract. Additional negotiation has taken place with contractors to determine how these cost increases can be reduced where possible. This negotiation and retendering of contracts is part of the Council's strategy for cost reduction and will continue over the medium-term.
- 4.9 Fees and Charges are based on the Council's agreed principles of increasing existing fees and charges on a market forces basis whilst having regard to the Council's policies and objectives. As a minimum, fees and charges should be increased by price inflation. The Council will also review opportunities to introduce new fees as appropriate. Proposed fees and charges will be considered by the Cabinet in early December.
- 4.10 At this stage, the MTFS also identifies some specific service pressures and offsetting savings and efficiencies.

- 4.11 In formulating its detailed spending plans, the Council has also taken account of past performance and the previous year's outturn position.

Baseline Budget Forecasts 2016/17 to 2019/20

- 4.12 The table below outlines the baseline MTFS Forecast 2016/17 to 2019/20 resulting from the issues highlighted in this report. The figures for 2019/20 are currently a roll-forward of the 2018/19 Forecasts, and, together with all of these figures, will be revised as part of the detailed budget process.

Baseline MTFS Forecast

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Feb 2015	0	2,561	4,109	4,591	
Sep 2015	0	897	2,083	2,877	3,555

- 4.13 Appendix A of this report provides a summary of the current MTFS forecasts and funding sources. Appendix B provides an analysis of all of the changes included in the above forecasts and their impact on the forecast budget gaps.
- 4.14 Whilst the position shown above represents a considerable improvement on the previously forecast position, challenging savings targets are contained within it, together with assumptions on funding levels that easily be changed as a result of emerging Government policy. There is also still some way to go before a balanced position is achieved for 2016/17.
- 4.15 To deliver a balanced and sustainable budget for 2016/17 and beyond, the Council will be adopting and working through the "Forward Strategy for Meeting the Financial Challenge" outlined in Section 6 of this report.
- 4.16 Key review areas that will be considered in working through this Strategy include those shown below. Some initial quantifications of savings, efficiencies, and income generation in these areas are reflected in Appendices A and B.
- Reviewing partnership arrangements, including the achievement of further savings in partnership with Waveney Norse
 - Implementation of new arrangements for municipal garden waste
 - Legal Services – Progression of the Suffolk Shared Legal Services project.
 - Review of Fees and Charges and income generation opportunities
 - Realisation of accommodation savings
 - Development of an Asset Investment Strategy – improving income and returns on investments
 - Review of Estate and Assets and Capital investments
 - Achievement of further Departmental savings
 - Continuing to pursue external funding opportunities

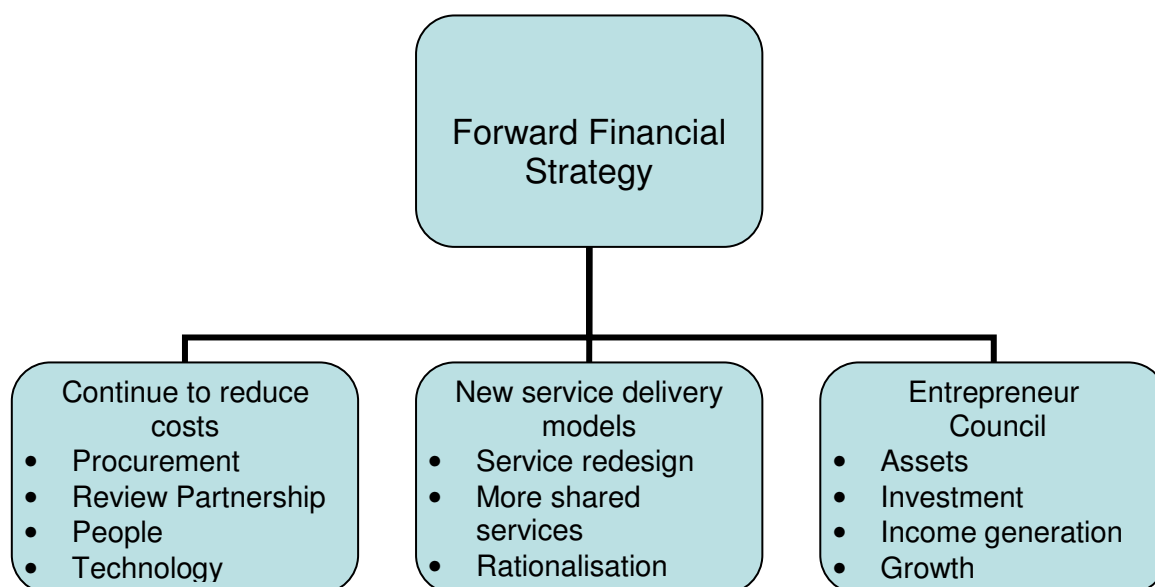
5 RESERVES AND BALANCES

- 5.1 In order to manage its financial affairs soundly, the Council needs to hold an appropriate level of reserves and balances. These allow it to:
- a) manage its cash flows economically and avoid temporary borrowing pending receipt of income due during the year;
 - b) deal promptly and efficiently with emergencies if they occur, as this year;
 - c) take previously unseen opportunities to secure benefits that may arise during the year;
 - d) set money aside for known events but where the timing or precise amount required is not yet certain; and
 - e) accumulate monies to meet costs that it would be unreasonable for taxpayers to meet in a single year.

- 5.2 In addition to the General Fund Balance, the Council keeps a number of earmarked reserves on the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans or potential liabilities.
- 5.3 The Council has continued to develop its prudent financial management arrangements, through the development of earmarked reserves to mitigate potential future risks. As issues arise, the potential requirement for an earmarked reserve is considered. New earmarked reserves are formally considered as part of the detailed budget process, to ensure that risks identified are adequately mitigated, and throughout the annual budget monitoring process as risks arise or become clearer.
- 5.4 The detailed budget process includes an assessment of risk, the adequacy of General Fund Reserves and a review of earmarked reserves, to both create, or change earmarked reserve levels and to also release reserves which are no longer required, to become one-off resources for the Council. A risk assessment of the General Fund Balances informs the Chief Finance Officer's view of the adequacy of reserves to provide assurance to the budget.
- 5.5 One of the key underpinning financial principles of the MTFS is to not use the Council's Reserves (and other one-off resources) as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are now used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.
- 5.6 Having regard to the financial risks surrounding the budget planning process the Council maintains the level of General Fund balances at around 3%-5% of its budgeted gross expenditure of some £74 million. At 31 March 2015, subject to audit, General Fund balances stood at £4.016m. Phased reduction of this balance forms part of the proposed measures to close the Budget Gap over the period of this MTFS.
- 5.7 A detailed analysis of the Council's balances, based on the assumptions and proposals in this report, is provided in Appendix C.

6 FORWARD STRATEGY FOR MEETING THE FINANCIAL CHALLENGE

- 6.1 In developing their MTFS, councils benefit from certainty and assurance over their future funding. With local government funding aligning more closely with changing welfare demands and economic growth, the MTFS will become more challenging to predict with greater risks to mitigate.
- 6.2 The Council has considered a strategic approach to address the medium-term financial gap. It is essential that the MTFS is aligned to a clear vision for East Suffolk, articulated in the revised **Draft Business Plan**. The Vision for East Suffolk is underpinned by three pillars:
- **Enabling Communities**
 - **Economic Growth**
 - **Financial Self Sufficiency**
- 6.3 The key elements in the Council's forward financial strategy to move towards Financial Self Sufficiency are illustrated in the chart shown below:



6.4 **Devolution** - The public sector in Suffolk, including Waveney DC and Suffolk Coastal DC are taking a “whole system” approach, working together to negotiate with Government for greater powers over public spending in Suffolk, including healthcare, policing, and other services. We are also looking towards increased powers for economic development and the improvement of education and skills for our residents. The MTFS in this report has been developed in advance of Devolution negotiations with Central Government, which will undoubtedly have a significant impact.

6.5 Strategic Management Team (SMT) and Heads of Service are taking a multi-directional approach to budget setting that will also drive ongoing performance improvement. The different elements of this approach are set out below and will be refined year on year.

- **Service Plans** – An internal “Peer Review” approach will be taken to service plans using a multi-discipline team that dissects each service plan with the respective authors to constructively challenge the purpose of the service; the outcomes that will be delivered; and how resources are, or are not, properly aligned to deliver.
- **Partnership Review** – A similar process to the Service Plan review process outlined above, but conducted with our key partners.
- **Project Register** – In conjunction with the Service Plan review process, the same team will test the comprehensiveness and relevance of the various projects in the Project Register from an overarching corporate perspective.
- **Finance** – A risk based review of the assumptions made in developing the MTFS has been carried out, as referred to in this report, and will continue to be refined in the light of emerging information.
- **Benchmarking** - A commissioned piece of work will compare the council in VFM terms to comparable councils and other bodies.
- **Income Review** – Below Service Plan level, aspects of our work will be identified that are:
 - Demand led or universal
 - Statutory or discretionary
 - Personalised or community wide
 - Income generating or not
 - Able to make a profit or not
 - Providing wider social value or not

This approach should help to determine a mixture of strategic approaches to aspects of services e.g. preventative; divest; minimise; optimise efficiency; invest and grow; etc.

- **Funding** – A comprehensive drive will be made through the Funding Team to identify and bid for targeted grant funds to support our activities.
- **‘Whole System’ Review** – In conducting this range of reviews a number of outcomes will be identified that are also key to successful delivery by other public sector bodies Where these are identified they need to be considered in partnership to ensure that what is being delivered adds value to the “whole system”.

6.6 The SMT in its role as **Key Programme Board** will oversee all of this activity, and will also lead on **Organisational Development**, with responsibility for instilling cultural change and skills, and managing performance with regard to Demand Management, Systems Thinking, and Commissioning.

6.7 The Council will also continue to progress a range of strategic financial activity to address longer-term financial pressures, including:

- Renewing ways to encourage business growth, maximising the advantages from the retention of Business Rates mechanism to generate income streams from available assets.
- Continuously reviewing its Treasury Management Strategy to ensure the optimum approach to strategic corporate financing.
- Rationalising its assets to provide maximum value for money in asset usage, disposal and regeneration strategy.

6.8 Building on its past success in delivering significant efficiencies by working in partnership with Suffolk Coastal DC, the Council has already committed to a number of key strategic initiatives aimed at transforming its services and further benefiting the taxpayer such as investing in its ICT infrastructure, new office accommodation and asset management decisions.

6.9 In addition the Council will be developing an Asset Investment Strategy with the objectives of increasing the return on investment, diversifying its investment portfolio, promoting economic development.

7 CAPITAL PROGRAMME STRATEGY

7.1 The Council is taking a more focussed look at its long-term asset management strategy, which will take into consideration the infrastructure investment needs to drive growth and generate income.

7.2 The Council continues to improve its framework for the planning and management of its Capital Programme and long-term investment needs and available resources.

7.3 The Council will continue to develop its strategic approach to the capital programme based on detailed asset management plans to ensure that the strategic investment needs of the Council, together with the ongoing maintenance demands of the assets are being addressed.

7.4 The Council agrees a medium-term rolling capital programme each year as part of the budget process. The items included in the programme must provide value for money, by delivering outputs that best match the Council’s priorities set out in the Corporate Business Plan and meeting statutory requirements such as the provision of health and safety regulations.

7.5 The revenue implications of capital projects are identified through the project appraisal process, and fed into the Council’s revenue assumptions in the MTFs to ensure that all revenue implications are taken into account.

7.6 Value for money is sought through:

- Efficient procurement of facilities through competitive processes and partnership working.

- Scrutiny of the project business case to ensure that outcomes from the scheme contribute directly to the Council's aims.
- Pre-project planning with identification of defined and measurable benefits, along with a post-project benefits review.

7.7 The Council's capital programme process ensures that managers define the outputs and benefits from their schemes as part of the development of the project. There is careful scrutiny of possible projects at the appraisal stage, and they are prioritised according to the extent to which the outcomes they promise to deliver match the priorities of the Council.

7.8 Where financing in a particular year is not sufficient to meet the needs of all the bids, schemes are prioritised as much as possible.

7.9 The medium term capital investment programme is currently being refreshed along with a forecast of future capital financing to inform the development of the MTFs.

8 RISK ASSESSMENT

8.1 Part of the process of delivering a robust medium term strategy to enable the Council to manage its affairs soundly, is to have regard to both external and internal risks, and to identify actions to mitigate those risks. A risk analysis together with mitigating actions is provided in Appendix D.

9 CONSULTATION

9.1 The Council will consult, at least annually, on its strategy and detailed financial plans for the coming year. Through a variety of methods, including e-consultation and forums, it will consult with staff, residents, partners and business. Consultation will also involve the Council's Scrutiny Committee.

10 OTHER OPTIONS CONSIDERED

10.1 As the consideration of the MTFs by Members at an early stage of the budget process is essential, particularly in order to commence actions to achieve a balanced budget and identifying the scale of the forecast Budget Gap for the next four years, no other options were considered as appropriate.

11 REASONS FOR RECOMMENDATION

11.1 To update the previous MTFs taking account of new and revised risks in order that the Council addresses them and will be able to set a balanced budget that delivers its priorities for the period under review, 2016/17 to 2019/20.

RECOMMENDATION

1. That the Overview and Scrutiny Committee review the principal assumptions and actions surrounding the baseline MTFs forecast.

RECOMMENDATIONS TO CABINET

2. That the draft Medium Term Financial Strategy be approved.
3. That Members and officers develop proposals to set a balanced budget for 2016/17 and beyond.

APPENDICES

Appendix A

General Fund Medium Term Financial Strategy 2015/16 – 2019/20

Appendix B

General Fund Medium Term Financial Strategy 2015/16 – 2019/20 – Budget Gaps

Appendix C	General Fund and Earmarked Balances 2015/16 to 2019/20
Appendix D	Medium Term Financial Strategy – Key Principles and Risk Assessment

BACKGROUND PAPERS

None

Waveney District Council

General Fund Medium Term Financial Strategy 2015/16 - 2019/20

	Original Budget 2015/16 £'000	Revised Budget 2015/16 £'000	Forecast 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000
Total Service Costs	14,076	14,076	15,228	16,039	16,667	16,667
Interest from Investments	(142)	(142)	(152)	(152)	(152)	(152)
Budget Contingency	50	50	160	339	205	205
Contributions to/from Reserves	(126)	(126)	(76)	37	26	26
Total Budget Expenditure	13,858	13,858	15,160	16,263	16,746	16,746
Budget Pressures, Growth, and Variances:						
Area Action Plan Major Projects		86	100	100		
Staffing Costs and Other Variances		(85)				
Lowestoft Rising Grant		12				
Implementation of Living Wage		13	99	106	114	123
Public Sector Pay Restraint				(44)	(88)	(44)
Housing Benefit and LCTRS Administration Grants			(175)	(215)	(160)	
New Savings / Income / Efficiencies:						
Waveney Norse Savings			tba	tba	tba	tba
Green Waste Net Income			tba	tba	tba	tba
Asset Income			(100)	(150)	(200)	(200)
Forecast Total Budget Expenditure	13,858	13,884	15,084	16,060	16,412	16,625
External Funding						
New Homes Bonus Allocation Received	(1,532)	(1,532)	(1,782)	(1,831)	(1,751)	(1,762)
New Homes Bonus to/from Reserve	82	82	32	81	1	12
Revenue Support Grant - subject to Spending Review	(2,849)	(2,849)	(2,505)	(1,896)	(1,363)	(1,076)
Business Rates Baseline	(3,670)					
Net Business Rates Income		(3,140)	(3,195)	(3,262)	(3,331)	(3,404)
Retained Business Rates - Renewables			(120)	(123)	(125)	(128)
Section 31 Grant (Business Rates)	(700)	(968)	(987)	(1,007)	(1,027)	(1,048)
Business Rates - Suffolk Pool Benefit		(210)	(210)	(210)	(210)	(210)
Collection Fund Deficit / Surplus - Business Rates		(11)	409			
Council Tax Freeze Grant	(60)	(60)				
Council Tax	(5,129)	(5,129)	(5,129)	(5,129)	(5,129)	(5,129)
Collection Fund Surplus - Council Tax			(100)			
External Funding Sub Total	(13,858)	(13,817)	(13,587)	(13,377)	(12,935)	(12,745)
Use of Balances						
Use of General Fund Balances re: 2014/15 in-year underspend			(400)	(200)	(200)	(200)
Use of Business Rates Reserve		(67)	(200)	(400)	(400)	(125)
Use of Balances Sub Total:		(67)	(600)	(600)	(600)	(325)
Total Funding	(13,858)	(13,884)	(14,187)	(13,977)	(13,535)	(13,070)
Forecast Budget Gap			897	2,083	2,877	3,555
Budget Gap as at February 2015			2,561	4,109	4,591	4,591

Waveney District Council

General Fund Medium Term Financial Strategy 2015/16 - 2019/20 - Budget Gaps

	Revised Budget 2015/16 £'000	Forecast 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000
Budget Gaps - February 2015		2,561	4,109	4,591	4,591
<i>Budget Pressures, Growth, and Variances:</i>					
Area Action Plan Major Projects	86	100	100		
Staffing Costs and Other Variances	(85)				
Lowestoft Rising Grant	12				
Implementation of Living Wage	13	99	106	114	123
Public Sector Pay Restraint			(44)	(88)	(44)
Housing Benefit and LCTRS Administration Grants		(175)	(215)	(160)	
Revised Budget Gaps - September 2015	26	2,585	4,056	4,457	4,670
<i>Forecast Funding Variances:</i>					
New Homes Bonus		(500)	(500)	(500)	(500)
Revenue Support Grant - subject to Spending Review		(597)	(547)	(131)	156
Business Rates	262	10	34	61	(36)
Business Rates - Suffolk Pool Benefit	(210)	(210)	(210)	(210)	(210)
Collection Fund Deficit / Surplus - Business Rates	(11)	409			
Collection Fund Surplus - Council Tax		(100)			
Forecast Funding Variances Sub Total:	41	(988)	(1,223)	(780)	(590)
<i>New Savings / Income Generation / Efficiencies:</i>					
Waveney Norse Savings		tba	tba	tba	tba
Green Waste Net Income		tba	tba	tba	tba
Asset Income		(100)	(150)	(200)	(200)
New Savings / Income Generation / Efficiencies Sub Total:		(100)	(150)	(200)	(200)
Use of Balances					
Use of General Fund Balances re: 2014/15 in-year underspend		(400)	(200)	(200)	(200)
Use of Business Rates Reserve	(67)	(200)	(400)	(400)	(125)
Use of Balances Sub Total:	(67)	(600)	(600)	(600)	(325)
Total Variances	(26)	(1,688)	(1,973)	(1,580)	(1,115)
Revised Budget Gaps - September 2015		897	2,083	2,877	3,555

Waveney District Council Reserves
2015/16 to 2019/20
As at September 2015

	BUDGET			BUDGET			BUDGET			BUDGET			Appendix C BUDGET			
	Closing Balance	2015/16 Movements		Closing Balance	2016/17 Movements		Closing Balance	2017/18 Movements		Closing Balance	2018/19 Movements		Closing Balance	2019/20 Movements		Closing Balance
	31/03/15	In	Out	31/03/16	In	Out	31/03/17	In	Out	31/03/18	In	Out	31/03/19	In	Out	31/03/20
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue Balances:																
General Fund	4,016			4,016		(400)	3,616		(200)	3,416		(200)	3,216		(200)	3,016
General Fund Balance	4,016	0	0	4,016	0	(400)	3,616	0	(200)	3,416	0	(200)	3,216	0	(200)	3,016
Earmarked Reserves - Revenue:																
Actuarial Contributions	173			173			173			173			173			173
Business Rate Equalisation	1,192		(67)	1,125		(200)	925		(400)	525		(400)	125		(125)	0
District Elections	190	60	(160)	90	60		150	60		210	60		270	60		330
Flood Prevention	146			146			146			146			146			146
Housing Benefit Administration	75			75			75			75			75			75
Housing Benefit Verification	200			200			200			200			200			200
House Condition Survey	30			30		(25)	5			5			5			5
Land Charges	33			33			33			33			33			0
Lowestoft Charter Trustees	12			12			12			12			12			12
New Homes Bonus	997	82		1,079	32		1,111	81		1,192	1		1,193	12		1,205
Major Projects	100		(50)	50			50			50			50			50
MMI	42			42			42			42			42			42
NNDR - Administration	14			14			14			14			14			14
Southwold Beach Huts	243			243			243			243			243			243
Planning & Building Control	381			381			381			381			381			381
Homelessness	77		(4)	73		(4)	69		(4)	65		(4)	61		(4)	57
Repairs & Maintenance	120			120			120			120			120			120
Rent Guarantee	30	5		35	5		40	5		45	5		50	5		55
Short Life Assets	328	528	(430)	426	568	(605)	389	481	(430)	440	490	(525)	405	490	(525)	370
Transformation (Note 1)	380	150	(225)	305		(75)	230		(75)	155			155			155
Community Development & Safety	70			70			70			70			70			70
Customer Services	34			34			34			34			34			34
Planning Policy	127			127			127			127			127			127
Lowestoft Rising	105			105			105			105			105			105
Economic Regeneration	81			81			81			81			81			81
Economic Regeneration - Major Projects	98			98			98			98			98			98
Earmarked Reserves - Revenue sub-total	5,278	825	(936)	5,167	665	(909)	4,923	627	(909)	4,641	556	(929)	4,235	567	(654)	4,148
Earmarked Reserves - Capital:																
Capital Reserve	0			0			0			0			0			0
Coast Protection	156			156			156			156			156			156
Earmarked Reserves - Capital sub-total	156	0	0	156	0	0	156	0	0	156	0	0	156	0	0	156
General Fund Revenue Balances & Reserves	9,450	825	(936)	9,339	665	(1,309)	8,695	627	(1,109)	8,213	556	(1,129)	7,607	567	(854)	7,320

WAVENEY DC MEDIUM TERM FINANCIAL STRATEGY - KEY PRINCIPLES

1 PRIORITIES, AIMS AND OBJECTIVES

- 1.1 The Community Strategy provides the Council's overarching vision for the Waveney District. In fulfilment of that strategy, the Council makes use of significant resources to achieve its aims including money, people, property and technology. In order to allocate resources to competing demands, achieve effective and efficient use of its resources, best value and ultimately achieve its vision, the Council has several strategies and plans which give a clear sense of direction and underpin the deployment of those resources. Principal amongst them is the Business Plan, Improvement Plan and Service Plans. Combined they support and embrace the Council's strategic direction.
- 1.2 The Council has reviewed its priorities and strategic direction having regard to its previous successes and the continuing, changing demands and financial challenges it faces. The **Draft East Suffolk Business Plan** is designed through its priorities to support the wider aims of its communities in support of its vision.

2 STRATEGY OBJECTIVES

- 2.1 The Council's MTFS is to provide the best quality services possible within the resources available. To do so it must maximise the use of its resources to ensure they are used efficiently and effectively to support the development of longer term sustainable objectives.
- 2.2 The specific objectives of the MTFS are to:
- a) ensure that the Council sets a balanced, sustainable budget year by year, so that forecast spending does not exceed forecast resources available to it;
 - b) plan for a level of council tax that the Council, its residents and Government see as necessary, acceptable and affordable to ensure that it has the financial capacity to deliver the Council's policies and objectives;
 - c) redirect resources over time to adequately support and resource the priorities of the both the Council and the wider community; and
 - d) maintain sufficient reserves and balances to ensure that the Council's long term financial health remains sound.

3 STRATEGY PRINCIPLES

- 3.1 The principles set out below provide a framework within which the Council will develop its detailed financial plan over the medium term.

General

- 3.2 There are a number of overarching principles that will apply across the Council's detailed financial accounting, planning and monitoring:
- a) that the Council's budgets, financial records and accounts will be prepared and maintained in line with approved Accounting Standards, the CIPFA Code of Practice on Local Government Accounting, the CIPFA Prudential Code and the relevant sections of the Council's Constitution and Finance Procedure Rules;
 - b) prior to setting a budget, the Council will always analyse potential risks and ensure these are minimised in line with its Risk Management Strategy;
 - c) that the Council's Corporate Management Team will review the budget proposals for reasonableness and adherence to corporate policies and objectives prior to the budget being submitted to Cabinet;

- d) the Council will monitor its revenue and capital budgets effectively. Monitoring will be undertaken monthly by Heads of Service together with their portfolio holders, and integrated quarterly monitoring reports will be reported to Cabinet. In cases of significant financial and service performance that deviates from that planned, action plans setting out corrective action will be drawn up by Heads of Service / Portfolio Holders and reported to Cabinet as appropriate;
- e) that the Council's Corporate Management Team will take appropriate steps to continue to maintain and improve the accuracy and quality of data that it uses throughout the Council thereby ensuring that budget and other decisions are taken on a sound basis; and
- f) the Council will seek to maximise external contributions towards revenue and capital spending for example through bidding for specific grants, attracting levered funding, participating in new funding streams and engaging in further strategic partnering opportunities where appropriate.

General Fund (Revenue)

3.3 In relation to its revenue budgets the Council will:

- a) set a balanced budget each year that will be constructed to reflect its objectives, priorities and commitments. In particular, the budget will influence and be influenced by the Business Plan, the Organisational and Development Strategy, Capital and Asset Management Strategies, the Risk Management Strategy, its Comprehensive Equality Scheme and its Consultation and Engagement Strategies;
- b) within the constraints of the resources available to it, set a sustainable budget each year that meets on-going commitments from on-going resources. The Council will continue to aim to maintain its level of general balances when it sets its revenue budget each year now that a prudent level of balances has been achieved;
- c) seek to identify annual efficiency savings through business process improvement, shared service initiatives, service best value reviews and benchmarking and strategic partnering opportunities within and across county borders;
- d) review the appropriateness of service delivery between the Council, parishes and other partners;
- e) increase existing fees and charges on a market forces basis whilst having regard to the Council's policies and objectives. As a minimum fees and charges should be increased by price inflation. The Council will also review opportunities to introduce new fees as appropriate; and
- f) within Government guidelines, set a level of council tax that the Council, its residents and Government see as necessary, acceptable and affordable to deliver the Council's policies and objectives.

Capital

3.4 When considering its capital investment the Council will:

- a) maximise the generation of capital receipts and grants to support its planned investment programmes;
- b) enhance its capital investment by applying specific grants and contributions, capital receipts, earmarked reserves and revenue contributions, with any balance being met by external borrowing;
- c) not recognise capital receipts until there is certainty that the receipt will materialise, and will not be earmarked against specific developments without express Cabinet approval;

- d) allocate its capital resources in line with its Capital Strategy and Asset Management Plan whilst recognising that other priorities may emerge that may require those plans to be amended and resources to be diverted;
- e) annually review and prioritise capital schemes in accordance with Council objectives having regard to:
- f) the business case for any given project; asset management planning; and
- g) affordability in line with the application of the Prudential Code.

Balances and Reserves

3.5 In relation to its general balances and earmarked reserves, the Council will:

Balances

- 3.6 each year, maintain the level of General Fund balances at around 3% of its budgeted gross expenditure of some £93 million. This would lead the Council to maintain a General Fund balance of about £2.5m to £3m.
- 3.7 have regard to the financial risks surrounding the budget planning process, including those associated with the structural deficit, inflationary pressures, interest rates, partnerships, the treatment of savings, new burdens and demand led expenditure.

Earmarked Reserves

- 3.8 review its earmarked reserves, which have been established to meet known or predicted liabilities, to ensure that the level of those reserves are still appropriate; and
- 3.9 return reserve balances no longer required to the General Fund or Housing Revenue Account as appropriate.

Treasury Management and Investment

3.10 The Council will:

- a) having regard to risk, maximise investment income and minimise borrowing costs within the overall framework set out in the Council's annual Treasury Management and Investment Strategy; and
- b) secure the stability of the Council's longer term financial position rather than seeking to make short-term one-off gains which may lead to higher costs in the long term.
- c) having regard to risk, seek to diversify its investment portfolio; maximise investment income; and deliver economic development objectives through the Asset Investment Strategy (in development).

4 OTHER CONSIDERATIONS







4.1 The Council's spending will have regard to:

- a) the base budget position for the current financial year, adjusted for in year grant changes;
- b) the Council's medium term priorities;
- c) the refocusing of service expenditure through transactional, shared services and other efficiencies to support the achievement of its medium term priorities and satisfy Government funding changes;
- d) demographic and welfare changes;
- e) consultation outcomes; and

- f) fiscal matters including:
- g) price inflation
- h) the effect on the level of General Fund balances and reserves
- i) the impact of any changes to the capital programme on the potential costs of borrowing
- j) triennial revaluation of the pension fund
- k) ongoing commitments, arising in part, from initiatives that have previously been funded from specific grants
- l) achieving budgeted savings from outsourcing, shared services and service reviews
- m) the likely passporting of some Government departmental savings targets to councils

5 COUNCIL'S INTERCONNECTING STRATEGIES

- 5.1 The Council has a number of integrated strategies and plans including the MTFS to support the delivery of the Council's priorities and objectives and include:
 - a) Treasury Management and Investment Strategy
 - b) Capital Strategy
 - c) Asset Management Strategy and Plan
 - d) Organisational and Development Strategy
 - e) ICT Strategy
 - f) Risk Management Strategy
 - g) Consultation and Community Engagement Strategies
 - h) Asset Investment Strategy
- 5.2 Further information on the Council's policies, plans and strategies can be found on the Council's website.

RISKS	PROBABILITY		IMPACT		MITIGATING ACTIONS
	HIGH		HIGH		
	MEDIUM		MEDIUM		
	LOW		LOW		
Strategic Risks					
The absence of a robust Medium Term Financial Strategy could adversely affect the Council's budget and resource planning and projections.	L		H		Continually monitor and refine the strategy in line with changing influences. Update Corporate Management Team and Cabinet.
Failure to understand changing community needs and customer expectations can result in the Council providing levels of service which are not appropriately aligned to the needs of communities and customers.	L		H		Continuously engage with key stakeholders and take advantage of existing consultation methodologies. Continue to monitor and more closely align service levels to demand and need.
Government is continuously reducing its departmental spending budget. Failure to respond to these funding pressures may adversely impact on the Council's ability to service delivery.	M		H		Take advantage of the Council's growth opportunities to reduce dependency on government funding. align service delivery to funding levels, improve exist strategy to minimise risk.
Budget pressures arising from housing and economic growth and other demographic changes.	H		H		Take advantage of technological advancements to understand and reduce unit costs, monitor demand for services and proactively manage resourcing requirements , invest in schemes to promote skills and developments.
Financial					
Uncertain medium term sustainability of incentivised income areas subject to Government policy, economic factors, and revaluation e.g. business rates and New Homes Bonus,	M		H		Constantly monitor information and update risk appraisals and financial projections. Provide timely briefings and updates to Members/ key stakeholders to facilitate decision making. Adopt prudent budgeting approach not placing undue reliance on uncertain funding sources.
Uncertainty surrounding the Government's change agenda including business rates and welfare reform over the medium term.	M		H		Constantly monitor information from Government and update risk appraisals and financial projections. Provide timely briefings and updates to Members/ key stakeholders to facilitate decision making. Lobby through the LGA as appropriate.
Budget pressures from demand led services and income variances reflecting the wider economy.	M		M		Monitor pressures throughout the budget process and take timely actions.
Costs arising from the triennial review of the Local Government Pension Scheme	H		M		Review and monitor information from Government and actuaries. Update forecasts as necessary.
Interest rate exposure on investments and borrowing.	L		L		Review cash flows, ensuring the Council has a flexible and forward looking Treasury management policy.
Information					
The Council itself has no influence over the outcome of some of the other bigger assumptions such as formula grant, national pay awards, interest rates, inflation and statutory fees and charges.	L		M		Key assumptions made are regularly reviewed from a variety of sources. Update forecasts as necessary.
Operational					
The Council has entered into a					Effective negotiation, sound

RISKS	PROBABILITY		IMPACT		MITIGATING ACTIONS
	HIGH	MEDIUM	HIGH	MEDIUM	
<p>number of strategic partnerships and contracts and is therefore susceptible to price changes.</p> <p>There is a potential risk to the Council resulting if there is a financial failure from an external organisations, providing services to the public on behalf of the Council</p> <p style="text-align: center;">People</p> <p>Loss of key skills, resources and expertise.</p> <p style="text-align: center;">Regulatory</p> <p>Changes of responsibility from Government can adversely impact on service priorities and objectives.</p> <p style="text-align: center;">Reputation</p> <p>Loss of reputation if unforeseen resource constraints result in unplanned service reductions.</p>	M	L	H	H	<p>governance arrangements and regular reviews of performance and partnership risks.</p> <p>Ensure rigorous financial evaluations are carried out at tender stage. Follow up with annual review of the successful organisation's Accounts, and review any external auditor comments.</p> <p>Continue to invest in staff developments, service continuity measures. Monitor succession planning. Keep staff consulted and informed. Ensure employment terms and conditions are competitive and development needs identified through PDP are satisfied.</p> <p>Sound system of service and financial planning in place. Lobby as appropriate.</p> <p>Identify and implement robust solutions in response to changes. Consult widely. Seek to achieve a prudent level of balances and reserves.</p>
		L	L	L	
		L	L	L	
		L	H	H	