MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2019/20

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 vision of the East Suffolk Business Plan is to "Maintain and sustainably improve the quality of life for everybody growing up, living in, working in and visiting East Suffolk". The MTFS underpins the **Efficiency Plan**, which outlines how the key Business Plan objective of Financial Self Sufficiency will be delivered.

1.4 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.

1.5 The key underlying principles of the MTFS are:

- 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.

1.6 Part of the process of delivering a robust MTFS 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. MTFS key principles and a risk analysis together with mitigating actions are provided in Appendix B1.

2 ECONOMIC AND PUBLIC FINANCES BACKGROUND

Economic Growth, Inflation, and Interest Rates

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 The economic outlook has changed significantly since the EU Referendum vote in June. The Bank of England's overall assessment in its August Inflation Report was as follows: "Following the United Kingdom's vote to leave the European Union, the exchange rate has fallen and the outlook for growth in the short to medium term has weakened markedly. The fall in sterling is likely to push up on CPI inflation in the near term, hastening its return to the 2% target and probably causing it to rise above the target in the latter part of the Monetary Policy Committee's (MPC) forecast period, before the exchange rate effect dissipates thereafter. In the real economy, although the weaker medium-term outlook for activity largely reflects a downward revision to the economy's supply capacity, near-term weakness in demand is likely to open up a margin of spare capacity, including an eventual rise in unemployment. Consistent with this, recent surveys of business activity, confidence and optimism suggest that the United Kingdom is likely to see little growth in GDP in the second half of the year." However, the Bank of England also commented that there is currently little post-referendum data available to assess the scale of those effects.

2.3 The Bank of England's overall forecast for growth in Gross Domestic Product (GDP) outlined in its August Inflation Report, are shown below, with the figures in brackets being the forecasts included in the May Inflation Report:

- 2016 2.0% (2.0%)
- 2017 0.8% (2.3%)
- 2018 1.8% (2.3%)

2.4 Regarding inflation, CPI inflation in June was 0.5%, which was in line with expectations. Inflation is projected to rise over the second half of 2016, as the drag from past falls in petrol, food and other goods prices diminishes. Further ahead the Bank of England's current assessment is that the outlook for inflation will be sensitive to the extent to which those two countervailing forces — higher external cost pressures and muted domestic cost pressures — offset each other. In contrast to external pressures, the outlook for domestic cost pressures is a little weaker than in May. A greater degree of spare capacity within companies and in the labour market is projected to bear down on domestic costs and prices. The outlook will also depend, however, on developments in companies' and households' inflation expectations, which are currently subdued, through their influence on wage and price-setting behaviour. The large fall in sterling will push up the prices of those goods and services consumed in the United Kingdom that are imported or produced using imported inputs.

2.5 Consequently, the Bank of England's overall forecast for CPI in its August Inflation Report is:

- Q3 2016 0.8%
- Q3 2017 1.9%
- Q3 2018 2.4%
- Q3 2019 2.4%

2.6 Developments since the Referendum present a trade-off for the MPC between delivering inflation at the target and stabilising activity around potential. Given the extent of the likely weakness in demand relative to supply, the MPC judged it appropriate to provide additional stimulus to the economy a package of measures designed to provide additional support to growth and to achieve a sustainable return of inflation to the target, including a cut in Bank Rate to 0.25%. Current expectations are that there may be a further cut in Bank Rate to just above zero later in the 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. Specific contractual inflation has been incorporated into the Council's financial position, where appropriate, based on the actual contractual indices

2.8 Regarding interest rates, a small reduction in interest rates of 0.25% would not entail significant movements on variable interest paid or received by the Council, and the effect on the General fund is estimated to be broadly neutral.

Public Finances

2.9 The Chancellor of the Exchequer gave his annual Autumn Statement to Parliament on 25 November 2015. The Autumn Statement provided a formal update on the state of the economy, responded to the new economic and fiscal forecast from the Office for Budget Responsibility, and announced the Government's measures to promote economic growth. The Chancellor also announced the results of the Government's Spending Review that sets out its spending plans for the four years of this Parliament, up to and including 2019/20.

2.10 In the March 2016 Budget, the Chancellor announced that:

- The Government will find a further £3.5 billion of savings from public spending in 2019/20.

- The Chief Secretary to the Treasury, with the support of the Paymaster General, will lead an efficiency review, which will report in 2018. This will review the efficiency of all departmental spending to inform future expenditure decisions.

- The defence and overseas aid commitments, the real-terms protections for the NHS in England, schools funding in England, the police and science will be maintained.

2.11 The Government published revised figures for the Local Government Departmental Expenditure Limit (DEL) between 2017/18 and 2019/20, which appear to indicate increases in these years. However, the reasons for these changes were not provided, and the implications for Local Government of the Public Sector Efficiency Review were also unclear.

2.12 Since the EU referendum, Philip Hammond has replaced George Osborne as Chancellor of the Exchequer, and has conceded that the aim of achieving a budget surplus by 2020 is now beyond reach. Economists currently predict a £64.5bn budget deficit in the next financial year, compared with £38.8bn forecast by the Office for Budget Responsibility (OBR) in March. The Chancellor has said that he is ready to "reset" spending policy in response to any weakness in the economy, possibly by borrowing more to invest in infrastructure projects, or temporarily cutting VAT. At this stage, it is not known as to what the implications for local government expenditure could be of any of any change in direction of Government fiscal policy.

3 LOCAL GOVERNMENT FINANCE

Overview

3.1 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. The 2016/17 Final Local Government Finance Settlement, published on 8 February 2016, continued and accelerated this process, and was characterised by the following key points:

- Significant reductions in central Government funding over the medium term and progression towards 100% business rates retention – phasing out of Revenue Support Grant (RSG) and proposals for a 4-year settlement;

- Redistribution of central funding towards social care – RSG reductions and New Homes Bonus (NHB) proposals;

- Change in Government's approach to Council Tax – included in grant distribution calculations, assumption of increases, relaxation of police and social care referendum limits, scrapping of freeze grant, etc.

3.2 The overall impact of these proposals, and the exemplifications in the Settlement, indicated significant issues regarding the Council's financial viability and ability to set a balanced budget. Reductions to RSG are now much larger and faster than previously forecast, as a result of building assumed council tax levels into the grant methodology, and redistributing funding towards social care authorities. The proposals for NHB in a separate consultation announced alongside the settlement could also potentially result in very significant funding reductions.

3.3 The following paragraphs provide some information on each of the Council's key funding sources, the most significant of these being the proposals to move to 100% business rates retention by the end of the Parliament.

Government Funding - Revenue Support Grant and Four-year Settlements

3.4 Revenue Support Grant (RSG) is one of the principal remaining sources of central Government funding to the Council, and has been substantially reduced in recent years. The Government's fiscal consolidation programme to reduce national debt, and public sector spending as part of that process, has resulted in large reductions to grant in recent years, including a reduction of over £1.2m in 2015/16 compared with 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.

3.5 Exemplifications for RSG up to 2019/20 were included in the Local Government Finance Settlement as shown below. These figures indicate the scale of reduction on the 2015/16 level, which was in itself around £1.2m less than 2014/15.

- 2015/16 £2.909m
- 2016/17 £2.018m
- 2017/18 £1.296m
- 2018/19 £0.836m
- 2019/20 £0.322m

3.6 Analysis of the settlement suggested that there were three key reasons for these large and rapid reductions in RSG:

- Assumptions on council tax income and increases now form part of the calculation of grant entitlement;
- Although not entirely transparent, there appeared to be a redistribution of resources towards social care authorities;
- Presumably as part of the Government's continuing deficit reduction strategy, the exemplifications showed a rapid phasing out of RSG prior to the introduction of 100% local business rates retention in 2020/21.

3.7 **Four-year Settlements** – The RSG exemplifications shown above constitute the Government's four-year funding settlement offer to councils, although there would still be some annual variation due to the interaction with the income figures in the business rates system, which are dependent on annual RPI figures. The government has made the point that the final year may be subject to the implementation of 100% business rates retention (see below).

3.8 The Secretary of State wrote to authorities in March to formally offer this multi-year settlement. The offer is subject to submission of an overall Efficiency Plan, of which this MTFS forms a substantial part, by 14 October 2016. Although the four-year settlement figures represent substantial reductions to the council's funding, there is no doubt that if the offer was not accepted, the alternative of annual settlements exposed to further funding cuts would be worse. The Minister's offer letter clearly states: "It is open to any council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement."

Business Rates – 100% Business Rates Retention Proposals

3.9 In its 2015 Spending Review, the Government announced that the system for local government revenue funding would change and that local government would be allowed to retain 100% of its business rates income by the end of the current Parliament i.e. by 2020. There is some doubt as to whether this target means full implementation in 2019/20 financial year, or 2020/21 financial year.

3.10 This is a major departure from the present system where, since 2013/14, local authorities have been able to retain up to 50% of the business rates they collect and also 50% of any growth in business rates collected in their area, although there is still significant redistribution of the retained shares – 'equalisation' – to address the fact that some local authority areas have much larger rates bases than others.

3.11 Under the proposed system all business rates income (currently £26 billion per year) will be retained by the local authority sector, although Central Government will continue to operate formulae which determine local needs and redistribute the money between local authorities.

3.12 Revenue Support Grant (RSG) which central Government currently pays to local authorities (from its share of business rates) would disappear completely under a system of 100% retained business rates.

3.13 Under the current system roughly £12 billion per year of business rates income is kept by central Government to fund local authority services not forming part of RSG funding. When, in future, this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to the sector. So the sector will not initially, at least, have more funding: over the longer term that will depend on whether business rates grow faster or slower than local authority service demands and costs.

3.14 In the Consultation, the Government has identified four guiding principles for the devolution of responsibilities:

- Devolution of a responsibility should build on the strengths of local government
- Devolution of a responsibility should support the drive for economic growth
- Devolution of a responsibility should support improved outcomes for service users or local people

- Devolution of responsibilities should be made with consideration for the medium-term financial impact on local government

However, at present there is a concern that many of the suggested "new responsibilities" shown below are, in fact, not new responsibilities at all, but merely represent a change of funding stream from specific grant to business rates. In addition, although not necessarily affecting district councils, a number of these areas are demand-led services with increasing funding pressures.

- Revenue Support Grant
- Rural Services Delivery Grant
- Greater London Authority Transport Grant
- Public Health Grant
- Improved Better care fund
- Independent Living Fund
- Early Years
- Youth Justice
- Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy
- Attendance Allowance

3.15 There are currently a great many unanswered questions and Government is currently starting to work on the detail of 100% business rates retention in conjunction with the LGA and local government finance representatives. As part of this process, the Government has issued a Consultation Paper on Business Rates Retention, and a Discussion Paper has also been issued for comment on Fair Funding Review. The deadline for responding to these documents is 24 September, and they are then likely to be followed up with more technical consultations in November / December.

3.16 Both the Consultation and the Discussion are wide-ranging and open ended in nature, with a large number of issues and question for local authorities to respond to. The Consultation Paper covers the following issues:

- Assessing New Burdens Post 2020
- Rewarding Growth
- Growth and Distribution
- Revaluations
- Powers for elected mayors
- Role of Combined Authorities
- Tier Splits
- Fire Authorities
- Enterprise Zones
- Sharing Risk
- Rating Lists
- Managing Appeal Risk
- Insulating against shocks
- Local Tax Flexibilities and Decision Making
- Infrastructure Levy and Business Rates Supplement powers

3.17 The Fair Funding Review Discussion Paper is concerned with assessing the relative needs of local councils, which will set the underlying "baselines" in the Business Rates Retention system, which will determine the amount of base funding available to authorities, and identifies the following issues:

- The approach to measuring relative need
- The treatment of growth in local taxes
- Transitioning to a new distribution of funding
- The geographical level at which need is measured
- Resetting' the needs assessment
- Incentives within the local government finance system

Business Rates Income Forecasts

3.18 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.

3.19 Business rates income was lower in 2015/16 than in the 2015/16 NNDR1. The bulk of this reduction in income was reflected in the 2016/17 NNDR1 and the estimated Collection Fund deficit to the General Fund included in the Budget for 2016/17. Combined with early monitoring during 2016/17, it is currently forecast that a further overall deficit of around £635k will need to be taken into account in 2017/18. Partly offsetting this, the position on renewables business rates, which are 100% retained by Waveney, is better than originally estimated. Monitoring and review of the business rates position will continue during the course of year and will be reflected in updates to the MTFS.

3.20 The Collection Fund position outlined above illustrates the volatility and uncertainty associated with business rates as an income source. There are also 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.

3.21 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.

3.22 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.

3.23 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. Waveney continues to be a member of the Suffolk Pool in 2016/17, and has both made a substantial contribution to the Pool and received benefits from the Pooling arrangements in previous years. It is assumed that the Council will continue to be a member of the Pool in 2017/18.

Council Tax, Tax Base and Collection Fund Surplus

3.24 Council tax is one of the Council's most important income streams, funding nearly 50% of the net budget. The Government announced in the Final Settlement that all shire districts would be able to increase council tax by a maximum of £5 or 2% in 2016/17, whichever is the greater. This is now built into Government's assumptions in future years of the core spending power available to local authorities.

3.25 The Spending Review and the Local Government Finance Settlement indicated a clear change in Government policy towards council tax. Rather than there simply being an emphasis on restriction and freezing of tax levels, council tax is now clearly seen as a funding stream that will be allowed to increase at above inflation levels in order to address priority spending areas. This was illustrated by the following key elements in the Settlement:

- Council tax income assumptions are included in the grant distribution methodology

- Increases in council tax are assumed in spending power calculations

- Council Tax freeze grants have been scrapped (although the 2015/16 freeze grant has been rolled in to RSG)

- Social Care authorities will be able to increase council tax by 2% above the normal 2% referendum, provided that this is hypothecated for Social Care

- Police forces with low current council tax levels will be able to increase council tax by a maximum of £5 rather than 2%

- All Shire Districts will be able to increase council tax by a maximum of £5 or 2%, whichever is the greater

- There is no indication that referendum limits will be introduced for towns and parishes.

3.26 The MTFS reflects a strategy of increasing council tax year-on-year at the maximum referendum limit levels for shire districts of £5 per annum (around 3.3% in 2017/18). Some growth in the number of properties in the tax base also means that overall the estimated tax base is projected to increase. The estimated tax base will be confirmed in subsequent updates of the MTFS

3.27 The Council Tax Collection Fund is monitored closely throughout the financial year, and the estimated deficit or surplus generated from the Collection Fund in 2015/16 is included in the budget for 2016/17.

New Homes Bonus

3.28 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.

3.29 Over the past few years, NHB has become an extremely important source of incentivised income. Alongside the Settlement the NHB allocations for 2016/17 (Year 6) have been made on the same basis as previous years. Waveney will receive a Year 6 allocation of £168k and a total allocation of £1.700m. The Council Tax Base (CTB1) return to Government provides the basis for the following year's NHB allocation. The NHB allocation for Year 6 is at a lower level than previous years, reflecting limited growth in the number of new properties and a static position on the number of empty properties in the district.

3.30 The Government issued a separate consultation on the future of NHB from 2017/18 onwards alongside the Settlement with a closing date for responses of 10 March 2016. The proposals in the consultation had the objectives of diverting at least £800m of funding to Social Care (the Better Care Fund), and of sharpening the incentives for authorities.

3.31 In summary, the proposals for reducing the level of NHB funding reduce the number of allocation years from 6 to 4, including the previous year 1 to 5 rounds. The Government's preferred option is for 2017/18 to be a transition year with a reduction to 5 years, with 4 years thereafter. An alternative option is to reduce to 4 years from 2017/18.

3.32 The proposals to sharpen incentives entail limiting allocations if an authority has not produced a Local Plan; reducing allocations in respect of properties developed after appeal; and only allocating NHB for properties above a baseline growth threshold of 0.25%. This last proposal is particularly significant in respect of potentially reducing Waveney's NHB allocation. In the 2016/17 allocation, growth equated to only 0.27%, meaning that only 10 properties would have qualified for NHB.

3.33 The table below illustrates the potential impact of these proposals compared with the current position. The table also includes figures in respect of the illustrative NHB allocations used in the Local Government Finance Settlement exemplifications At the time of updating this MTFS, the Government is yet to publish its response to the Consultation.

Waveney DC New Homes Bonus	**2015/16** £'000	**2016/17** £'000	**2017/18** £'000	**2018/19** £'000	**2019/20** £'000
Unreformed Scheme - Current Forecasts	**1,532**	**1,700**	**1,669**	**1,509**	**1,440**
Govt Preferred - Reduction to 4 years (5 years 2017/18 4 years from 2018/19 onward) & Remove Baseline Growth	**1,532**	**1,700**	**1,203**	**563**	**270**
Alternative - Reduction to 4 years without interim 5 year stage & Remove Baseline Growth	**1,532**	**1,700**	**965**	**563**	**270**
LG Finance Settlement Illustrative NHB - national reduction pro rata to 2016/17 allocations	**1,532**	**1,700**	**1,700**	**1,100**	**1,000**

4 MEDIUM TERM FINANCIAL POSITION

MTFS Forecasts 2016/17 to 2020/21

4.1 The table below outlines the updated MTFS Forecasts for 2016/17 to 2020/21. These are attached in more detail as Appendix B2. These forecasts have been updated in respect of the external funding issues referred to in previous sections, and the output of ongoing budget monitoring during the course of 2016/17, which is referred to in more detail in 4.2. The forecast figures beyond 2019/20 have not been updated in detail, with the exception of the budget monitoring figures. It should also be noted that at present these forecasts represent a base MTFS position that does not take account the following major issues in this timeframe:

- The outcome of the Lowestoft Community Governance Review and the possible establishment of third-tier council arrangements in Lowestoft;
- The possible merger of the council with Suffolk Coastal District Council with effect from April 2019;
- The implementation of 100% Business Rates Retention in 2019/20 or 2020/21;
- Any other actions or use of balances to address the currently forecast budget gap.

MTFS Forecast

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Feb 2016	0	2,339	4,071	4,771	
Aug 2016	40	3,078	4,198	5,054	4,937

4.2 Budget Monitoring during 2016/17 to date has identified service areas variances which are summarised in the table below. Overall there is currently growth shown in all years. Savings and additional income have been identified but these have been exceeded by growth items. The budget monitoring work is ongoing, with the Finance Team working with service areas to review their budget requirements. This work will continue to update the MTFS over the coming months.

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Service Area Variances	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Savings/Efficiencies	(343)	(145)	(84)	(85)	(86)
Pressures/Growth	495	370	351	474	358
Income Changes	(116)	(22)	(89)	(54)	(54)
Total Variance growth/(reduction)	**36**	**203**	**178**	**335**	**218**

4.3 To deliver a balanced and sustainable budget for 2017/18 and beyond, the Council will be adopting and working through the strategy outlined in the Efficiency Plan.

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.

General Fund Balance and Earmarked Reserves

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. 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. At 31 March 2016, General Fund balances stood at £4.159m.

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 The overall projected position on Reserves and Balances, without any further use to close the budget gap, is summarised below and is set out in more detail in Appendix B3:

	Actual	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
	April 2016	**April 2017**	**April 2018**	**April 2019**	**April 2020**	**April 2021**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Reserve:						
General	4,159	4,159	4,159	4,159	4,159	4,159
Earmarked	6,582	5,553	5,185	5,114	5,135	5,156

6 CAPITAL PROGRAMME STRATEGY

6.1 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.

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

6.3 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.

6.4 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.

6.5 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.

6.6 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.

6.7 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 FLEXIBLE USE OF CAPITAL RECEIPTS AND EFFICIENCY STRATEGY

7.1 Alongside the Settlement, the Government issued Guidance on the Flexible Use of Capital Receipts. Over the period 2016/17 to 2018/19, capital receipts (not HRA RTB sales) can be used to finance the initial revenue costs of projects generating ongoing revenue savings or transforming service delivery. This flexibility is dependent on the authority approving an Efficiency Strategy (which can be as part of budget) outlining the projects proposed for funding by this method. There is no formal process for this, and no check on eligible projects is intended by DCLG.

7.2 Any proposal would need to be considered in the context of revenue and capital financing strategies, and in practice would also depend upon there being capital receipts available. However, given the financial position faced by the Council, and the potential need for radical re-shaping of services, it was considered appropriate for the Council to be in a position to take advantage of this additional flexibility. Consequently, an Efficiency Strategy meeting the requirements of the Guidance was approved by Full Council together with the Budget in February 2016. The Guidance allows for the Strategy to be revised during the course of the year.

WAVENEY DC MEDIUM TERM FINANCIAL STRATEGY - KEY PRINCIPLES

1 PRIORITIES, AIMS AND OBJECTIVES

1.1 The **East Suffolk Business Plan** provides the overarching vision for East Suffolk of both Waveney and Suffolk Coastal District Councils. In fulfilment of the Plan, 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. The **Medium Term Financial Strategy** sits under the **Efficiency Plan,** and combined with other strategies and plans, they support and embrace the strategic direction of East Suffolk.

2 STRATEGY OBJECTIVES

2.1 The Council's MTFS aims to ensure the provision of 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

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)

3.2 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

3.3 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

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

- each year, maintain the level of General Fund balances at around 3% - 5% of its budgeted gross expenditure. This would lead the Council to maintain a General Fund balance in a range of around £2.5m to £4m.

- 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.

- 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

- return reserve balances no longer required to the General Fund or Housing Revenue Account as appropriate.

Treasury Management and Investment

3.5 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

RISKS	**PROBABILITY** **HIGH** **MEDIUM** **LOW**	**IMPACT** **HIGH** **MEDIUM** **LOW**	**MITIGATING ACTIONS**
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.

RISKS	PROBABILITY HIGH MEDIUM LOW	IMPACT HIGH MEDIUM LOW	MITIGATING ACTIONS
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

RISKS	PROBABILITY HIGH MEDIUM LOW	IMPACT HIGH MEDIUM LOW	MITIGATING ACTIONS
			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 number of strategic partnerships and contracts and is therefore susceptible to price changes.	M	H	Effective negotiation, sound governance arrangements and regular reviews of performance and partnership risks.
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	L	H	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.

RISKS	PROBABILITY HIGH MEDIUM LOW	IMPACT HIGH MEDIUM LOW	MITIGATING ACTIONS
People			
Loss of key skills, resources and expertise.	L	L	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.
Regulatory			
Changes of responsibility from Government can adversely impact on service priorities and objectives.	L	L	Sound system of service and financial planning in place. Lobby as appropriate.
Reputation			
Loss of reputation if unforeseen resource constraints result in unplanned service reductions.	L	H	Identify and implement robust solutions in response to changes. Consult widely. Seek to achieve a prudent level of balances and reserves.

Waveney District Council
General Fund Medium Term Financial Strategy - Updated August 2016

	Budget	Forecast	Forecast	Forecast	Forecast
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Forecast Total Budget Expenditure Feb 2016	**13,974**	**15,287**	**15,902**	**15,998**	**15,998**
Budget Monitoring Variances	**36**	**203**	**178**	**335**	**218**
Forecast Total Budget Expenditure Aug 2016	**14,010**	**15,490**	**16,080**	**16,333**	**16,216**
External Funding					
New Homes Bonus Allocation Received	(1,700)	(1,203)	(563)	(270)	(270)
Revenue Support Grant	(2,018)	(1,296)	(836)	(322)	(322)
Net Business Rates Income	(3,346)	(3,430)	(3,502)	(3,578)	(3,578)
Retained Business Rates - Renewables	(244)	(220)	(175)	(178)	(178)
Section 31 Grant (Business Rates)	(738)	(752)	(767)	(782)	(782)
Business Rates - Suffolk Pool Benefit	(276)	(150)	(150)	(150)	(150)
Collection Fund Deficit / Surplus - Business Rates	657	635	0	0	0
Council Tax	(5,395)	(5,596)	(5,797)	(5,999)	(5,999)
Collection Fund Surplus - Council Tax	(210)	0	0	0	0
External Funding Sub Total	**(13,270)**	**(12,012)**	**(11,790)**	**(11,279)**	**(11,279)**
Use of Balances					
Use of General Fund Balances	0	0	0	0	0
Use of / Contribution to Business Rates Reserve	(700)	(400)	(92)	0	0
Total Funding	**(13,970)**	**(12,412)**	**(11,882)**	**(11,279)**	**(11,279)**
Forecast Budget Gap	**40**	**3,078**	**4,198**	**5,054**	**4,937**

Waveney District Council Reserves
2016/17 to 2012/21

		BUDGET 2016/17 Movements			BUDGET 2017/18 Movements			BUDGET 2018/19 Movements			BUDGET 2019/20 Movements			BUDGET 2020/21 Movements		
	Closing Balance 31/03/16	*Transfers In*	*Transfers Out*	Closing Balance 31/03/17	*Transfers In*	*Transfers Out*	Closing Balance 31/03/18	*Transfers In*	*Transfers Out*	Closing Balance 31/03/19	*Transfers In*	*Transfers Out*	Closing Balance 31/03/20	*Transfers In*	*Transfers Out*	Closing Balance 31/03/21
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue Balances:																
General Fund	**4,159**			**4,159**			**4,159**			**4,159**			**4,159**			**4,159**
General Fund Balance	***4,159***	***0***	***0***	***4,159***	***0***	***0***	***4,159***	***0***	***0***	***4,159***	***0***	***0***	***4,159***	***0***	***0***	***4,159***
Earmarked Reserves - Revenue:																
Actuarial Contributions	**173**			**173**			**173**			**173**			**173**			**173**
Business Rate Equalisation	**1,476**		(700)	**776**		(400)	**376**		(92)	**284**			**284**			**284**
District Elections	**190**	60	(50)	**200**	60		**260**	60		**320**	60		**380**	60		**440**
Flood Prevention	**37**			**37**			**37**			**37**			**37**			**37**
Community Health	**107**			**107**			**107**			**107**			**107**			**107**
Housing Benefit Administration	**75**			**75**			**75**			**75**			**75**			**75**
Universal Credit	**253**			**253**			**253**			**253**			**253**			**253**
House Condition Survey	**30**		(25)	**5**			**5**			**5**			**5**			**5**
In-Year Savings	**500**			**500**			**500**			**500**			**500**			**500**
Land Charges	**135**			**135**			**135**			**135**			**135**			**135**
Lowestoft Ogogo	**43**			**43**			**43**			**43**			**43**			**43**
New Homes Bonus	**1,079**			**1,079**			**1,079**			**1,079**			**1,079**			**1,079**
Major Projects	**313**		(98)	**215**			**215**			**215**			**215**			**215**
MMI	**56**			**56**			**56**			**56**			**56**			**56**
NDR - Administration	**14**			**14**			**14**			**14**			**14**			**14**
Southwold Beach Huts	**243**			**243**			**243**			**243**			**243**			**243**
Planning & Building Control	**402**		(100)	**302**			**302**			**302**			**302**			**302**
Private Sector Housing Reserve	**15**			**15**			**15**			**15**			**15**			**15**
Homelessness	**87**		(4)	**83**		(4)	**79**		(4)	**75**		(4)	**71**		(4)	**67**
Repairs & Maintenance	**80**			**80**			**80**			**80**			**80**			**80**
Rent Guarantee	**30**			**30**			**30**			**30**			**30**			**30**
Transformation	**333**		(75)	**258**		(75)	**183**			**183**			**183**			**183**
Community Development & Safety	**60**			**60**			**60**			**60**			**60**			**60**
Customer Services	**34**			**34**			**34**			**34**			**34**			**34**
Planning Policy	**236**			**236**			**236**			**236**			**236**			**236**
Economic Regeneration	**64**			**64**			**64**			**64**			**64**			**64**
Earmarked Reserves - Revenue sub-total	***6,065***	***60***	***(1,052)***	***5,073***	***60***	***(479)***	***4,654***	***60***	***(96)***	***4,618***	***60***	***(4)***	***4,674***	***60***	***(4)***	***4,730***
Earmarked Reserves - Capital:																
Coast Protection	**156**			**156**			**156**			**156**			**156**			**156**
Short Life Assets	**361**	568	(605)	**324**	481	(430)	**375**	490	(525)	**340**	490	(525)	**305**	490	(525)	**270**
Earmarked Reserves - Capital sub-total	***517***	***568***	***(605)***	***480***	***481***	***(430)***	***531***	***490***	***(525)***	***496***	***490***	***(525)***	***461***	***490***	***(525)***	***426***
Total Earmarked Reserves	***6,582***	***628***	***(1,657)***	***5,553***	***541***	***(909)***	***5,185***	***550***	***(621)***	***5,114***	***550***	***(529)***	***5,135***	***550***	***(529)***	***5,156***