Appendix 16

MEDIUM TERM FINANCIAL STRATEGY 2015/16 to 2018/19

February 2015

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1 Introduction

1.1 Objectives of the MTFS

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

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

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

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

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

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

1.2 Limitations of the MTFS

The further the MTFS looks to the future, the more uncertainties there are. Spending Round 2013 (SR13) announced in June 2013 set out the Government’s spending plans for 2015/16 only, covering the remainder of the current Parliament. This MTFS therefore covers just one spending review and looks three years into the future. Clearly those future years are dependent upon the actions and priorities of the new Government, and although the likely financial scenarios are well published, there is an inherent level of uncertainty of the impact on the Council.

1.3 Corporate and financial timetable

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

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

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

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

2 National Context

2.1 Spending Reviews (SRs)

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

Spending reviews are co-ordinated and managed by HM Treasury. The dates and length of spending reviews vary. They normally take place every two years and cover a three year period: typically the final year of the previous spending review becomes the first year of the next review. Comprehensive spending reviews (CSRs) tend to be less frequent. They aim to take a longer term view and usually involve a series of zero-based reviews of public spending.

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

Year	2000 SR	2002 SR	2004 SR	2007 CSR	2010 SR	2013 SR
2001/02						
2002/03						
2003/04						
2004/05						
2005/06						
2006/07						
2007/08						
2008/09						
2009/10						
2010/11						
2011/12						
2012/13						
2013/14						
2014/15						
2015/16						
2016/17						
2017/18						
2018/19						

SR13 included reference to a further 10% to local government funding in 2015/16; on top of the 28% cut through SR10 and the further 1% cut introduced by Budget 2013. It also included reference to two major changes to adult social care

- The government believes that the recent Whole Place Community Budget pilots have demonstrated local areas' ability to reduce demand on services and costs. It is therefore providing £3.8bn of pooled funding between the NHS and local authorities to deliver services to older and disabled people from 2015/16. However, £1.0bn of this will be performance related; linked to a 3.5% reduction in Total Emergency Admissions at Accident and Emergency. The funding for this pooled "Better Care Fund" is from existing local government and NHS resources.

- The Government will make £335m available in 2015/16 so that councils can prepare for reforms to the system of social care funding, including the introduction of a cap on care costs from April 2016 and a universal offer of deferred payment agreements from April 2015. In addition, the new minimum eligibility threshold for access to state help with care costs would be "set at the level operated by the vast majority of local authorities in the current system" (these needs are 'substantial' or 'critical' for the majority of authorities). Although the Government's stated intention is that the changes will be cost neutral on Local Government, it is not at all clear that this will be the case.

2014/15 was the last year of the current spending review. SR13 only covers the period 2015/16. Therefore the final three years of the MTFF will be in the next spending review period and a new parliament, and therefore is somewhat unknown at this stage.

In addressing the national economic situation and in the run up the forthcoming General Election all political parties have emphasised the need to look further at a four year programme of public sector spending restraint and reconfiguration. This has been reinforced in the Chancellor's annual autumn speech in December 2014 with further restriction placed on the Government's public spending plans up to 2019. The Chancellor also announced the need for a further significant public spending reduction in the period after the next election in 2015 with approximately half of this anticipated to come from welfare changes. The tightening and reduction of Government funding contributions to local government funding and the new Government's changes from April 2013 for the funding of Local Government, means that the current financial challenges for 2016/17 and beyond will continue. This needs to be seen as part of an extended period of financial retrenchment similar at least to the previous four years that Local Government has already encountered and that councils will need to consider a much longer spending reduction programme than previously identified by Central Government

2.2 Public Spending and the Economy

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

The Autumn Statement

The Chancellor of the Exchequer presented his Autumn Statement to the House of Commons on 3 December 2014.

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

Public Sector Funding

- **Public Sector Expenditure** – Public Sector Expenditure is set to fall at the same rate as between 2010/11 and 2014/15 until 2018. It is then forecast to increase by inflation in 2018/19 and 2019/20.

- **NHS Funding** – an additional £2bn of additional funding has been made available to the NHS for 2015/16. This will include £1.5bn on frontline patient care.

- **Public Sector pay** – The government estimates that public sector pay restraint in this Parliament is expected to save £12bn by 2014/15. It also expects that the continuation of this policy will lead to commensurate savings by 2017/18.

- **Efficiency Savings** – The government aims to find a further £10bn of efficiency savings by 2017/18. The delivery of these will be led by the Cabinet Office. The main areas where it is anticipated that these savings will be made are digital uptake of public services and improving IT procurement.

- **Affordable Homes** – The affordable housing capital investment policy has been extended to 2019/20 (it was previously due to end in 2017/18). The government believes that it is on track to build 55,000 new affordable homes per annum between 2015/16 and 2017/18 and it is expected that this figure will then continue to 2019/20.

- **Universal Credit** – From April 2016, the government will increase childcare support within Universal Credit from 70% to 85% of eligible costs for all families.

Business Rates

- There will be a number of changes to business rates. Most significantly, there will be a cap on the RPI increase in business rates to 2% in 2015/16.

- The doubling of Small Business Rates Relief (SBRR) will be extended to April 2016 and a discount of up to £1,500 against business rate bills for retail premises with a rateable value up to £50,000 will continue 2015/16.

- The government will carry out a review of the future structure of business rates. This will report by Budget 2016. It will also publish its interim findings on the review of business rates administration by December 2015. The review is intended to be revenue neutral and "consistent with the government's financing of local authorities".

2.3 Value for Money

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

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

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

2.4 Economic situation

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

Capita Asset Services Commentary (January 2015)

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

Eurozone (EZ)

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. The ECB will embark on quantitative easing (purchase of EZ country sovereign debt) over an 18 month period from March 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece

The general election took place on 25 January 2015 and brought to power a political party which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA

The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China

Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

Capita Asset Services Forward View (January 2015)

Economic forecasting remains difficult with so many external influences weighing on the UK. Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Interest rate forecasts are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government

- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.

- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.

- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

2.5 Effect on Local Authority finances

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

The measures being taken by the Coalition Government continue to reduce the funding available from Formula Grant and restrict the amount local authorities can raise in Council Tax. To lessen the effect of this, the Government has removed the ring-fencing from most grants so that local authorities can decide how best to apply them to services, and is continuing to give a grant to local authorities who do not increase their Council Tax.

The Coalition Government has offered a fifth year freeze grant, equivalent to a Council Tax increase of 1%; the extension of this grant into future years will be dependent upon decisions made by the new government after the May election. The proposed budget rejects this grant.

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

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

- Business rates have also been “localised”. The Government has not given any local control over the business rate poundage – that will still be set centrally. However as part of the financial settlement, local government retains 50% of money assumed to be raised from local businesses. This is topped up by Revenue Support Grant and “top-up” payments to the full amount of the baseline need. Should actual business rate receipts exceed expectations the additional income is shared with central government. However the converse is also true; subject to certain safety net arrangements, the risk of lower business rate receipts is also shared. Local government funding is therefore now intrinsically linked to the performance of the local (and national) economy.

- 2015/16 will see the introduction of the Better Care Fund between the Council and Southend Clinical Commissioning Group, pooling at least £12.7 million of existing funding streams between the two organisations to develop transformation changes to the delivery of services to older and disabled people. Locally some £1 million of this fund will be performance related. The success of this initiative is therefore crucial to not only securing the funding, but also to underpin our ability to continue to drive necessary efficiency and therefore monetary savings in this area.

- 2015/16 also sees the introduction of the initial measures of the Care Act, principally the introduction of assessments for carers. Additional funding has been received both directly and through the Better Care Fund, which is in the middle range of initial estimates of cost.

- 2016/17 will see the major social care reforms coming in, including the introduction of a cap on care costs. Currently flagged as financially neutral on local government, regulations are still be finalised following the enactment of the Care Act. At present the MTFS makes no additional provision for any potential impact of these reforms.

The combined effect of the recession and the deficit reduction measures has been to increase costs, whilst reducing income and funding, leading to large budget gaps to be bridged in each of the next four financial years.

3 Hierarchy of Plans

3.1 Sustainable Community Strategy

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

3.2 Corporate Plan

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

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

The Corporate Plan operates at three levels:

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

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

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

3.3 Partnerships

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

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

4 Corporate Plan

4.1 Corporate Vision

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

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

4.2 Corporate Aims

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

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

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

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

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

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

4.3 Corporate Priorities

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

Council's Vision	**"Creating a better Southend"**
Council's 5 Aims	**Council's 15 Corporate Priorities 2015-16**
Safe	To: • Create a safe environment across the town for residents, workers and visitors. • Work with Essex Police and other partners to tackle crime. • Look after and safeguard our children and vulnerable adults.
Clean	To: • Promote the use of green technology and initiatives to benefit the local economy and environment. • Encourage and enforce high standards of environmental stewardship.
Healthy	To: • Promote healthy and active lifestyles for all. • Work with the public and private rented sectors to provide good quality housing. • Enable the planning and development of quality, affordable housing.
Prosperous	To: • Ensure residents have access to high quality education to enable them to be lifelong learners and have fulfilling employment. • Improve the life chances of our residents, especially our vulnerable children and adults, by working to reduce inequalities and social deprivation across our communities. • Ensure the town is "open for business" and that new, developing and existing enterprise is nurtured and supported. • Ensure continued regeneration of the town through a culture led agenda.
Excellent	To: • Work with and listen to our communities and partners to achieve better outcomes for all.

Council's Vision	"Creating a better Southend"
	• Enable communities to be self-sufficient and foster pride in the town. • Promote and lead an entrepreneurial, creative and innovative approach to the development of our town.

5 General Fund Services – 2015/16

The Corporate Priorities are reflected in the 2015/16 General Fund budget being recommended to Council at its meeting on 26 February 2015. It includes proposals for savings and efficiencies totalling £10.5 million to balance the budget, these are summarised below by the relevant Department:

- Corporate Services £1,467,000
- People £6,465,000
- Place £2,568,000

The 2015/16 General Fund budget also includes:

- Inflation Allowance of £1,240,000.
- Corporate Cost Pressures of £3,090,000.

The proposals for savings and efficiencies for 2015/16 are summarised in Annex 1 and are incorporated into the Medium Term Financial Plan in Annex 3.

6 Housing Revenue Account – 2015/16

The Housing Revenue Account is a ring-fenced account which stands separate from the General Fund, although there are charges between the two funds to reflect Service Level Agreements and corporate support services.

Under the provisions of the Localism Act 2011, the Housing Revenue Account (HRA) became “self-financing” on 1 April 2012: That is in return for the payment of lump sum, funded by borrowing, to HM Treasury, the HRA no longer has to pay negative subsidy each year to the Government. The HRA is the statutory “landlord” account for the authority. The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the HRA balance. Changes to regulations over recent years, notably the introduction of rent restructuring in 2002, mean that the dwelling rent income streams had become largely fixed. The approach in recent years has been to work within the guidelines set by the government. Despite the introduction of “self-financing” for the HRA no longer requiring strict adherence to rent restructuring, the same approach has been continued given that the settlement underpinning self-financing assumed full convergence would be achieved.

The HRA estimates have been prepared alongside South Essex Homes, and incorporate their management fee bid.

For 2015/16, an average rent increase of 4.45% is assumed. A local policy for convergence to formula rents is also proposed, in light of the Governments’ recent policy changes in this area.

The HRA MTFS Medium Term Financial Strategy demonstrates that the HRA is financially robust, as long as we continue to make efficiencies within the HRA and achieve value for money in the management and maintenance of the stock.

It also means that the Council now has a secure financial basis on which to bring forward a strategic housing development plan dealing with opportunities to both support the need to reinvest back into the existing stock and to allow for a more innovative capital programme that could allow for stock remodelling, new build etc.

7 Asset Management Plan

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

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

- Operational assets – The Council’s operational buildings
- Non-operational assets – The Council’ investment portfolio
- Regeneration assets – Assets acquired or held to support regeneration.
- Surplus Assets – Assets which have no sound case for retention.
- Infrastructure required to deliver the Plan, notably ICT

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

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

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

- Revisions to give the Asset Management Plan a high level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims that all the Council’s assets are corporately held and managed strategically to:
    - Support efficient and effective service delivery;
    - Support the regeneration of the town and enable Southend to achieve its objectives;
    - Underpin the Council’s capital programme and revenue budget.

- The inclusion of a property investment strategy with its own set of governance to enable investment opportunity decisions to be taken quickly against a pre-agreed set of investment performance criteria such as and including lot size, yield, property type, lease terms and covenant strength.

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

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

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

- PSP Southend LLP update.

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

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

8 Capital Programme

8.1 Capital Expenditure

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

Under the Local Government Act 2003, from 1 April 2004, each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The Government does have powers to limit the aggregate for authorities for national economic reasons, or for an individual authority.

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

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

8.2 Spending plans 2014/15 to 2018/19 (and later years)

The Council's proposed capital programme for 2014/15 and future years is summarised below:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 and later years £000	Total Budget £000
Approved Capital Programme (Nov 2014)	45,261	47,725	27,368	25,055	0	145,409
Reprofiles & Amendments	(3,995)	(1,974)	(117)	3,703	500	(1,883)
New External Funding	187	2,054	1,277	1,238	2,522	7,278
Proposed Additional Schemes	0	4,200	6,120	7,300	27,750	45,370
Current Proposed Programme	**41,453**	**52,005**	**34,648**	**37,296**	**30,772**	**196,174**

8.3 Funding of the Capital Programme

The proposed capital programme presented in this report is currently fully funded and has been prepared based on the level of borrowing the Council can support, notified capital grants, prudent assumptions over the level of other grants and the timing and valuation of capital receipts (from the sale of existing surplus Council assets) that will be realised.

The financing of the capital programme will continue to be supported where possible by the generation of capital receipts from the sale of surplus Council assets. Since 2011, the Council's approach to property disposals has been geared to reflect members' requests to ensure that, wherever possible, assets are used to generate revenue, with freehold disposals being a last option. This recognises the Council's increasing revenue pressures whilst still delivering a modest programme of capital receipts. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing to fund the Capital Programme.

When the Council enters into Prudential Borrowing to fund Capital expenditure, there is a revenue impact and therefore an increase to the Councils budget requirement. As an indicative guide to the revenue consequence, there is a cost of approximately £80k for every £1m borrowed or if £8m is borrowed this would equate to an increase in Council Tax of around 1%.

The full impact of borrowing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2015/16 to 2018/19.

In summary, it is the Chief Financial Officer's view that the 2015/16 to 2018/19 Capital Programme is Prudent, Affordable and Sustainable.

9 Treasury Management Policy and Prudential Indicators

9.1 Background

Treasury Management is an area of activity which covers the management of the council's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks.

The budget includes provision for the financing costs of the Council's Capital Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.

The CIPFA Prudential Code for Capital Finance in Local Authorities has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures prudence, affordability and sustainability.

9.2 Borrowing

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

The agreed operational boundaries and authorised limits for the years 2015/16 to 2017/18 are shown in the table below:

	Estimate 2015/16 £m	**Estimate 2016/17 £m**	**Estimate 2017/18 £m**
Operational boundary	270	275	285
Authorised limit	280	285	295

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

The estimates for the capital financing requirement for the years 2014/15 to 2017/18 are:

	Estimate 2015/16 £m	Estimate 2016/17 £m	Estimate 2017/18 £m
Operational boundary	270	275	285
Authorised limit	280	285	295

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

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

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

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

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

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

9.3 Investments

The Council's investment objectives are:

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

The Council currently uses one external fund manager who manages approximately £25m of the Council's money. The remaining funds (initially projected to be an average of £40m in 2015/16) are managed in-house.

Cash flow forecasts are produced in order to inform in-house investment decisions. The investment period and amount invested are determined by the daily cash flow requirements of the Council and the investment criteria and limits set out in the Annual Investment Strategy.

The type of investment and the counterparty in which to invest are determined in accordance with the investment criteria set out in the Annual Investment Strategy.

9.4 Financial Outlook on Interest Rates

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

The outlook is one of continuing low interest rates and consequently low investment income earnings. The Bank of England base rate remains at 0.50% and based on economic forecasts, it is assumed that during 2015/16 it will increase to 0.75% and then to 1%. Given the current economic conditions, interest rate forecasts into the medium term should be viewed with caution.

Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £325k in external interest earned and a difference of £1m in average balances would make a difference of £9k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Head of Finance and Resources.

10 Corporate Assurance and Risk Management

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

The following Corporate Risks have been reviewed by the senior leadership group and were also reviewed by Audit Committee on 14 January 2015:

- **Setting a Balanced Budget for 2015/16** - Risk that there is an in-year overspend of the 2014/15 budget and the Council fails to identify the required savings to enable a balanced budget to be set for 2015/16

- **Workforce Development and Planning** - Risk that failure to provide appropriate career opportunities and rewards will adversely affect the Council's ability to retain staff with the required levels of skills and experience.

- **Reputational Damage** - Risk that negative criticism received as a result of undertaking budget savings, a reduction in service quality or contractor insolvency will significantly damage the reputation of the Council

- **Business Continuity** - Risk that the testing of the Council's revised business continuity processes will require further deployment of resources to ensure arrangements are sufficiently resilient.

- **Financial implications of legislation and other Government policy changes** - Risk that the impact of government policy, particularly in relation to welfare reform, social care and health integration and any changes in local government funding, will have a significant impact on the Council's finances.

- **Impact of Health Service reforms** - Risk that new joint working & commissioning arrangements between the council and key health partners, conflicting budget pressures and operational difficulties result in an inability to deliver expected health and social care requirements to local people.

- **Regeneration** - Risk that the failure to adequately influence the Local Enterprise Partnership/Central Government funding plans will limit the progress of major infrastructure projects in Southend.

- **School Inspection Regime** - Risk that the new Ofsted Inspection ratings for schools will result in a perceived decline in Southend schools performance.

- **Airport Business Park** - Risk that a failure to secure a development partner and progress the Airport Business Park Master plan will result in a loss of employment opportunities and reputational damage to the Council.

- **Single Inspection for Children's Social Care** - Risk that a reduced rating following an inspection of the Council's children's social care services under the new single inspection framework will result in reduced confidence in the council.

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

11 Reserves Strategy

11.1 General Fund Reserve

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

i) An absolute minimum level of General Fund reserves of £8 million that is maintained throughout the period between 2015/16 to 2018/19;

ii) An optimal level of reserves of £10 million over the period 2015/16 to 2018/19 to cover the absolute minimum level of reserves, in-year risks, cash flow needs and unforeseen circumstances;

iii) A maximum recommended level of reserves of £12 million for the period 2015/16 to 2018/19 to provide additional resilience to implement the Medium Term Financial Strategy;

iv) A Reserves Strategy to remain within the recommended range for reserves over the relevant period of 2015/16 to 2018/19.

These recommendations were conditional upon not considering further calls on reserves other than for those risks that have been identified, those that could not have been reasonably foreseen and that cannot be dealt with through management or policy actions.

11.2 Housing Revenue Account

In relation to the Housing Revenue Account (HRA) in 2015/16 and the medium to long term:

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

ii) A 2015/16 budget has been agreed with South Essex Homes Ltd. to maintain a balanced HRA, together with a MTFS

iii) Forward projections for the HRA beyond 2015/16 have been modelled based on a 30 year business plan developed to support the introduction of the self-financing reforms for the HRA.

11.3 Earmarked Reserves

A table of the earmarked reserves and their balances at 31 March 2014 to 31 March 2019 are shown in Annex 2. The balances at 31 March 2015 to 2019 are indicative, based on the assumptions in this report, and do not represent the probable figures that will be disclosed in future years Statement of Accounts.

12 Fees and Charges Strategy

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

In accordance with best practice, the Council:

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

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

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

13 Funding of the Net Budget Requirement

13.1 Government Funding – Grant and Finance Settlement

Government funding through revenue support grant and top-up payments in respect of retained business rates is the main provider of funding for the Council's total general fund budget (excluding schools). As such it represents a significant factor in determining the Council's revenue budget. The provisional Local Government Finance Settlement for 2015/16 was issued by the Department for Communities and Local Government (DCLG) on 18 December 2014 and this represented the Government's one year spending plans for 2015/16 only. The final Local Government Settlement was announced on 3 February 2015.

The latest Finance Settlement maintains the key changes in the way that Local Government is now financed, which were introduced in April 2013. To recollect for Members the main changes arose from the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. The settlement now provides authorities with a combination of provisional Revenue Support Grant (RSG) allocation and confirmation of Business Rates top up grant. The changes also saw the start of the localisation of council tax support, and therefore the inclusion of a fixed sum of grant to compensate local authorities for a notional 90% of the cost of the previous council tax benefit arrangements.

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

- The final Settlement Funding Assessment (SFA) (a combination of actual RSG and estimated business rates income) for 2015/16 is £60.659 million. This compares to an adjusted SFA of £70.912 million in respect of 2014/15 (a reduction of £10.253 million and equivalent to a 14.5% reduction);

- The settlement is a one year settlement only for 2015/16;

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

- A further Council Tax freeze grant has been confirmed and those Councils that freeze their Council Tax will benefit from the equivalent cash sum of a 1.0% Council Tax increase, before any adjustment for the local council tax support scheme. This grant is confirmed as payable for 1 year only and will be subject to the next government's deliberations in its first Spending Review in 2015. Funding is now merged into the on-going Local Government settlement that Council's receive to avoid any cliff edge in funding for previous years' acceptance of the Council Tax freeze grant;

- The 2015/16 referendum limit for Council Tax increases was announced at a level of 2% as part of the provisional settlement (2014/15 this was also set at 2%). This was also confirmed in the final settlement;

- From 2015/16, funding to support social care and benefit health is being replaced by the Better Care Fund; a pooled budget between the Council and Southend Clinical Commissioning Group (CCG). The provisional settlement has indicated that the pooled budget from existing NHS and Council resources will be circa £12.7 million and include no less than £11.6 million of NHS funds;

- The consultation on the provisional finance settlement ended on 15 January 2015 and this informed the final settlement on 3 February 2015;

- The small business non-domestic rates (NNDR) poundage (multiplier) has been set at 48.0p, having been uplifted by a reduced rate of 2.0% compared to the previous Government arrangement of an uplift by RPI inflation for September 2014 of 3.2%. The associated non-domestic poundage has been set at 49.3p. Non-domestic rates are set nationally by the Government and collected locally by Councils (billing authorities). Under the new arrangements for the localisation of business rates a sum of 50% is returned to Government who then reapportion this sum back to Local Government as part of their main grant settlement. The remaining 50% is retained 49% by the Council and 1% is distributed to the Essex Fire Authority. The Council's actual income from business rates is therefore dependent upon the performance of the local economy, the success of any rating appeals and collection rates. The Police Authority receive their funding separately;

- The Public Health service grant allocation for 2015/16 is £8.060 million exactly the same level as for 2014/15.

13.2 Dedicated Schools Grant (DSG)

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

The total DSG for 2015/16 is £135.5 million (2014/15 = £135.6 million). In practice the final DSG will exclude funding for the 12 Academies and is estimated to reduce to £91 million for maintained schools and high needs. In addition to funding from the DSG, schools will receive Pupil Premium grant, which will provide £1,300/£935 of funding per primary/secondary pupil (2014/15 = £1,300/£935 per pupil) who have been registered for free school meals in any of the past 6 years. Based on estimates the Pupil Premium will provide an additional £8 million for schools in Southend-on-Sea (both Maintained and Academy schools). This is compared to £7.9 million of Pupil Premium in 2014/15.

13.3 Council Tax

There is a 1.95% increase in Council Tax for 2015/16. For planning purposes an increase of 1.5% has been assumed for 2016/17 onwards.

For 2014/15 Southend-on-Sea Borough Council had the fourth lowest Band D Council Tax (including Police, Fire and Leigh Parish) of all the unitary councils and the second lowest of the local authorities in Essex.

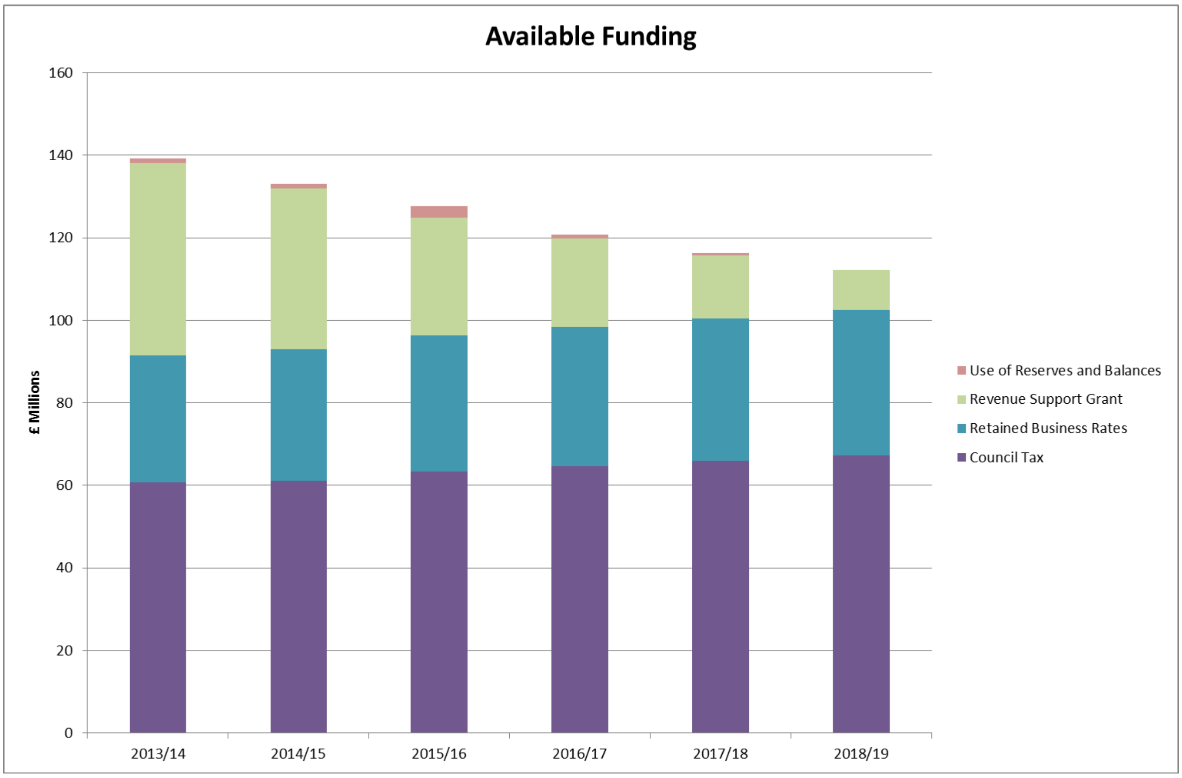
As an indicative guide, for Southend Borough Council every increase of 1% raises £619k of extra funding. This is less than most other unitary councils would raise by an increase of 1% as they are starting from a higher Council Tax level.

The Council Tax Base is the number of band D equivalent properties/dwellings, or, looked at another way, it is the amount of money the billing authority estimates it can raise for each £1 of council tax set at the band D level, after relevant discounts and exemptions. Changes in the number of households affect the tax base for Council Tax purposes, as does the number of Council Tax Support claimants, and hence the total amount which will be raised from this source. The Council Tax base for 2015/16 is 54,591.12 (equivalent Band D properties).

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

13.4 Total Available Funding

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



14 Medium Term Financial Plan

The Medium Term Financial Plan covering the period 2015/16 to 2018/19 is shown in Annex 3.

14.1 Key Assumptions

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

Funding

Council Tax - the increase is assumed to be 1.5% each year from 2016/17.

Formula Grant – the figure for 2015/16 was announced on 3 February 2015. Given the impending general election, the Government has not announced a provisional figure for 2015/6/17. The last Spending Review only covered 2015/16. However based on the expectation of a continuance of the programme of deficit reduction, the Formula Grant is assumed to fall by a further 25.2%, 28% and 37% in 2016/17, 2017/18 and 2018/19 respectively.

Business Rates – the figure for 2015/16 is a combination of the fixed top-up payment the Council receives from government and a local assessment of the net amount raised locally that the Council will retain. Both elements are assumed to grow by 2.0% from 2016/17.

Support from Collection Fund – surpluses have been estimated for both 2016/17 and 2017/18, based on the level of accumulated surpluses. This is a prudent view based on Council Tax increases of 1.5% and forecasts of housing completions, increases in discounts and exempt properties, and taking into account the effect of the current economic climate on collection rates. No surplus has been assumed for 2018/19.

Inflation and Fees & Charges

Pay award – there is assumed to be an increase of 1.0% in 2016/17 through to 2018/19. This is based on the assumption that, given the current level of inflation and the upward influences on inflation in the future, there could potentially be pressure on pay inflation.

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

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

Corporate Cost Pressures

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

Employers' National Insurance contributions – the introduction of the single tier state pension from April 2016, and the abolition of the arrangements for contracting out of national insurance will lead to higher employer national insurance contributions. This is expected to add in the region of £900k to the Council's pay bill.

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

Costs of Transformation – with the on-going downward pressure on net spending, it is inevitable that there will be upfront costs associated with service redesign and the introduction of new service delivery models. The MTFS makes provision for this.

Department Savings/Pressures

Identified income/savings – it is assumed that these will be achieved in full in each of the years in which they have been identified. With the unpredictability of demands on services, and potential new legislation, services could experience increasing cost pressures and this is also reflected in the plan.

NHS Funding

There is separate funding of £5.5 million in 2015/16 for NHS Funding to support social care and benefit health through the Better Care Fund.

Housing Revenue Account

From 2012/13 the HRA became self-financing, and is no longer subject to the HRA subsidy regime.

Under self-financing, the HRA funds its expenditure, including its capital expenditure, from its income streams (primarily tenant's rents). Some grant funding may be available to support capital expenditure within the HRA going forward, but there is no assumption of external funding built into forward projections.

The HRA continues to be run on a breakeven principle. Forward projections of income and expenditure are based on an underlying inflation assumption of 2.0%.

Schools

No change in the DSG has been assumed as the Government are considering moving to a new national funding formula for schools and no further details are currently available.

14.2 Sensitivity analysis

The effect of changes to these assumptions on the budget gap for 2015/16 and on the Council Tax, are shown in the following table:

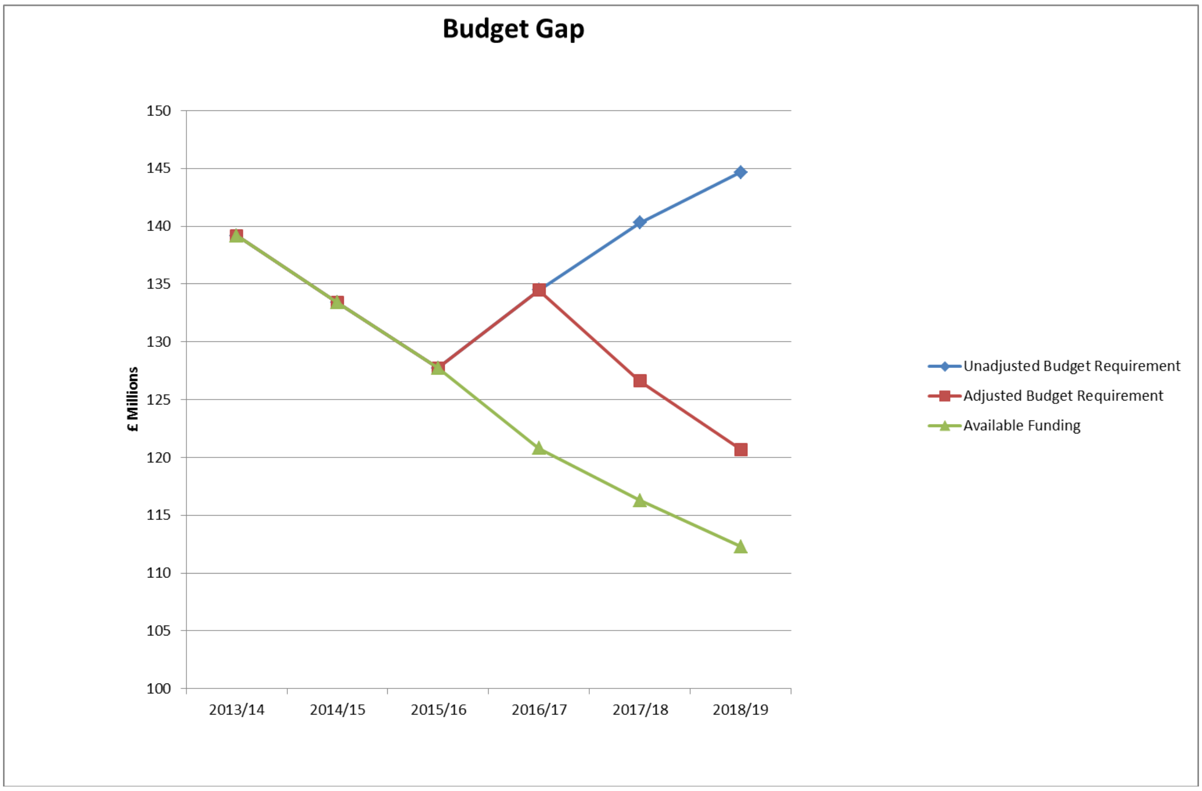
Assumption in MTFP for 2016/17	Change in assumption	Effect on the budget gap for 2016/17	Effect on Council Tax
Council Tax increase of 1.5%	No Council Tax increase	Increase of £953k (before any potential freeze grant if available)	
Formula Grant as per estimated settlement (25.2% reduction on 2015/16)	Formula Grant decreased by 30%	Increase of £1,374k	Increase of 2.2%
Retained Business Rates growth at 2.0%	Retained Business Rates growth at 1%	Increase of £236k	Increase of 0.4%
1% pay award	Pay award of 2%	Increase of £700k	Increase of 1.1%
Inflation for contractual goods and services at 3%	Inflation for contractual goods and services at 4%	Increase of £333k	Increase of 0.5%
Fees and charges increased by 2%	Fees and charges not increased	Increase of £400k	Increase of 0.6%
100% of identified on-going savings of £10.5M will be achieved in 15/16	95% of identified on-going savings of £10.5M will be achieved in 15/16	Increase of £525k	Increase of 0.8%

14.3 Financial Planning 2015/16 to 2018/19

The Medium Term Financial Plan as shown in Annex 3 takes account of all the factors highlighted throughout this strategy that lead to cost pressures and restrictions on income and funding. The resulting budget gap for 2015/16 has been closed by the proposed savings totalling £10.5 million as set out in Annex 1. The budget gaps remaining for the financial years 2016/17 to 20178/19 are set out below:

	2015/16	2016/17	2017/18	2018/19	Total
Remaining budget gap	£0m	£13.7m	£10.3m	£8.4m	£32.4m
Budget gap as a % of the 2015/16 net budget requirement	0%	9.8%	7.4%	6.0%	23.3%

The Medium Term Financial Plan assumes that each year's budget gap is closed, so that each year's budget requirement is contained within available funding.



14.4 2016/17 and Beyond

In addressing the national economic situation and in the run up the forthcoming General Election all political parties have emphasised the need to look further at a four year programme of public sector spending restraint and reconfiguration. This has been reinforced in the Chancellor's annual autumn speech in December 2014 with further restriction placed on the Government's public spending plans up to 2019. The Chancellor also announced the need for a further significant public spending reduction in the period after the next election in 2015 with approximately half of this anticipated to come from welfare changes. The tightening and reduction of Government funding contributions to local government funding and the new Government's changes from April 2013 for the funding of Local Government, means that the current financial challenges for 2016/17 and beyond will continue. This needs to be seen as part of an extended period of financial retrenchment similar at least to the previous four years that Local Government has already encountered and that councils will need to consider a much longer spending reduction programme than previously identified by Central Government.

Like all local authorities in England, Southend-on-Sea Borough Council is facing unprecedented financial challenges. The Council has, over a number of years, addressed significant funding gaps whilst also achieving improved efficiency and service delivery. In the current, and forecast, period of national financial stringency the scale of financial contraction is such as to challenge the scale, nature and purpose of the role of the Council.

Traditionally, and particularly over recent years, the nature of Council activity has seen an increase in the level of directly delivered services for the local populace and for local businesses and visitors. Many services have been delivered on a universal basis and free or at limited cost. As funding continues to reduce greater pressure is being placed upon the services provided by the Council and also the way in which these are delivered.

Since the beginning of the current national financial crisis the Council has striven to sustain its full range of services but it is increasingly likely that this approach will be unviable.

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

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

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

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

Given the financial challenge we have and are to continue to face for a number of years, a continued programme of corporate working will continue with this efficiency drive and to help support the identification of savings for future years. This will allow us to have a programme driving transformational change in the organisation and will allow a clear focus on delivery of the required significant savings that will be required over this period.

This programme of corporate work streams will have helped to deliver savings of nearly £9million over the last three years.

Over the coming year it will be extremely important to consider future year potential savings proposals in anticipation of delivering tailored services for the community whilst addressing the known budget reductions required from our total budget and reflecting the estimated significant government grant reductions. It is currently anticipated in advance of the next Governments anticipated spending review in 2015, that further savings in the order of **£23m to £25m** will be required form the Council's circa £126m 2015/16 net budget for the two years 2016/17 to 2017/18. Clearly, the outcome of any spending review in 2015 could impact on these projections.

It is clear that the budget savings presented for 2015/16 cannot be repeated in successive years without the Council considering how it delivers services across the borough to avoid duplication of overheads, achieve economic delivery and still provide facilities and services valued by the community.

Savings Proposals 2015/16 - All Council Services (excluding schools) **Appendix 16, Annex 1**

No.	Proposed Savings	Corporate Services £'000	People £'000	Place £'000	Proposed Total £'000
	Corporate Services				
CS1	Citizen Account	40			
CS2	Venue Hire to maximise income - Weddings only to historic assets	35			
CS3	Bereavement services income charges	175			
CS4	Telephone trading with schools	20			
CS5	Hybrid Mail	15			
CS6	Better Start – Financial Management	75			
CS7	Combining children’s and adults payments team	70			
CS8	Restructure Financial Management	60			
CS9	Asset Management – increased rental income	125			
CS10	Civic Centre Accommodation	217			
CS11	93 -99 Southchurch Road	185			
CS12	Rents on Community Halls and Public Halls	40			
CS13	VAT Advice	45			
CS14	Counter Fraud – Cost neutral over next 3 years	50			
CS15	People & Policy – Management Restructure	50			
CS16	Outlook Magazine online	20			
CS17	People & Policy – Additional Income (development team £5,000, schools £10,000, Tickfield £20,000)	35			
CS18	Legal - additional income	25			
CS19	Democratic Services – printing of agendas (Online/part online)	10			
CS20	Democratic Services – Deletion of overtime budget	10			
CS21	Democratic Services – Members Transport/Expenses etc	10			
CS22	Emergency Planning	10			
CS23	Facilities Management staffing	25			
CS24	Channel Shift in the reporting of Place Based Events	20			
CS25	Housing Benefit Subsidy	100			
	Sub-Total Corporate Services	**1,467**			**1,467**

No.	Proposed Savings	Corporate Services £'000	People £'000	Place £'000	Proposed Total £'000
	People				
PE1	Redesign Early Offer Pathway		100		
PE2	Family Centre Redesign		200		
PE3	Short breaks budget		60		
PE4	Teenage pregnancy service		50		
PE5	Success for All Children Joint commissioning budget		40		
PE6	Connexions service		135		
PE7	Resources panel/efficiencies		20		
PE8	Changing skill mix and outsourcing support planning in adult social work teams		150		
PE9	Mental Health efficiencies		100		
PE10	Reduction in residential placements and longer term support through Better Care Fund		980		
PE11	Review of high cost placements and care packages		100		
PE12	Provider services Managers review		55		
PE13	Queensway		240		
PE14	Early years		165		
PE15	Early Years		60		
PE16	Special Educational Needs (SEN) Service		35		
PE17	School Improvement		95		
PE18	School Governance – Shared Service		30		
PE19	Children's Centres		100		
PE20	Hostel Income generation		150		
PE21	Private Sector Housing		40		
PE22	Capitalise posts		20		
PE23	Supporting People (SP) contracts		600		
PE24	School Development Team		15		
PE25	Carers Grant Budget		30		
PE26	Social Care training budget		55		
PE27	Supporting People		360		
PE28	Better Care Fund (BCF)		2,000		
PE29	RAS Allocation		200		
PE30	Stage 2 Complaints		10		
PE31	Continuing Health Care for Children		100		
PE32	Children's Placement Costs		100		
PE33	Children's Integrated Locality Service Budget		50		
PE34	SEN Reform Grant		20		
	Sub-Total People		**6,465**		**6,465**

Savings Proposals 2015/16 - All Council Services (excluding schools) **Appendix 16, Annex 1**

No.	Proposed Savings	Corporate Services £'000	People £'000	Place £'000	Proposed Total £'000
	Place				
PL1	Waste Collection and Street Cleansing contract			425	
PL2	Delete doorstep textiles recycling collection			12	
PL3	Rationalise litter bins in residential areas			20	
PL4	Tables and Chairs income			30	
PL5	Taxi Licensing			11	
PL6	Anti-Social Behaviour (ASB)			80	
PL7	Restructure Business Support			70	
PL8	Events			40	
PL9	Economic Development			55	
PL10	Pier Income			45	
PL11	Common Permit Scheme			150	
PL12	Building Control Income			20	
PL13	Parking charges			245	
PL14	Development control income			45	
PL15	LED light energy saving			100	
PL16	Highway contract procurement			150	
PL17	Leisure and Transport Contracts efficiencies			320	
PL18	Third party payments in Culture			100	
PL19	Restructuring of leisure management			60	
PL20	Library review			126	
PL21	Pitch rationalisation with Community Interest Company			30	
PL22	Bowling charges			10	
PL23	Review energy staffing			20	
PL24	Review Environmental Care Team (ECO) team			180	
PL25	Leisure income			25	
PL26	Town Centre Management			34	
PL27	Southend Marine Activities Centre			40	
PL28	Coastal protection efficiencies			15	
PL29	Traffic management efficiencies			30	
PL30	LED maintenance budget			15	
PL31	Reduce transport budget			25	
PL32	Reduction in Waste Collection contract gain Share provision			40	
	Sub-Total Place			**2,568**	**2,568**
	Proposed Savings Total 2015/16	**1,467**	**6,465**	**2,568**	**10,500**

Appendix 16
Annex 2

Earmarked Reserves

		Estimate 2014/15			Forecast 2015/16			Forecast 2016/17			Forecast 2017/18			Forecast 2018/19		
Earmarked Reserve	**Balance 31/03/2014 £000**	**To Reserves £000**	**From Reserves £000**	**Balance 31/03/2015 £000**	**To Reserves £000**	**From Reserves £000**	**Balance 31/03/2016 £000**	**To Reserves £000**	**From Reserves £000**	**Balance 31/03/2017 £000**	**To Reserves £000**	**From Reserves £000**	**Balance 31/03/2018 £000**	**To Reserves £000**	**From Reserves £000**	**Balance 31/03/2018 £000**
Capital Reserves																
Capital Reserve	**6,128**		(844)	**5,284**	809	(3,085)	**3,008**		(2,140)	**868**		(350)	**518**		(350)	**168**
Corporate Reserves																
Business Transformation Reserve	**2,478**	3,059	(1,273)	**4,264**		(2,405)	**1,859**	944	(150)	**2,653**	944		**3,597**	(210)		**3,387**
Business Rates Retention reserve	**2,128**			**2,128**			**2,128**			**2,128**			**2,128**			**2,128**
Interest Equalisation Reserve	**2,133**			**2,133**			**2,133**			**2,133**			**2,133**			**2,133**
L A G B I Reserve	**43**			**43**			**43**			**43**			**43**			**43**
New Homes Bonus Reserve	**1,844**	300		**2,144**	342		**2,486**	789		**3,275**	931		**4,206**	792		**4,998**
Pensions Reserve	**9,564**		(9,564)	**0**	3,973		**3,973**	4,782		**8,755**			**8,755**			**8,755**
Repairs And Renewals	**275**			**275**			**275**			**275**			**275**			**275**
Insurance																
Insurance Reserve	**3,534**			**3,534**			**3,534**			**3,534**			**3,534**			**3,534**
Service Reserves																
Agresso ERP Reserve	**819**		(214)	**605**		(5)	**600**			**600**			**600**			**600**
Area Child Protection	**78**			**78**			**78**			**78**			**78**			**78**
Art Reserve	**36**			**36**			**36**			**36**			**36**			**36**
Building Control Reserve	**143**			**143**			**143**			**143**			**143**			**143**
Elections Reserve	**142**		(35)	**107**		(35)	**72**		(36)	**36**		(36)	**0**	107		**107**
L P S A Reserve	**826**		(277)	**549**		(277)	**272**		(272)	**0**			**0**			**0**
Local Land Charges Reserve	**234**			**234**			**234**			**234**			**234**			**234**
Museum Exhbits	**114**			**114**			**114**			**114**			**114**			**114**
Schools Improvement	**1,289**		(200)	**1,089**		(200)	**889**		(200)	**689**			**689**			**689**
Scrutiny Function	**17**			**17**			**17**			**17**			**17**			**17**
Social Fund	**1,190**			**1,190**		(106)	**1,084**		(350)	**734**		(350)	**384**		(350)	**34**
Supporting People Reserve	**809**	35		**844**		(600)	**244**			**244**			**244**			**244**
Waste Management Reserve	**4,843**			**4,843**			**4,843**			**4,843**			**4,843**			**4,843**
Welfare Reform Reserve	**1,490**		(500)	**990**		(300)	**690**		(300)	**390**		(300)	**90**	210	(300)	**0**
Grants																
DSG	**739**			**739**			**739**			**739**			**739**			**739**
General Grants Carried Forward	**6,655**		(1,109)	**5,546**			**5,546**			**5,546**			**5,546**			**5,546**
Public Health Grant - Public Health	**773**		(773)	**0**			**0**			**0**			**0**			**0**
Public Health Grant - DAAT	**323**		(323)	**0**			**0**			**0**			**0**			**0**
Weekly Collection Support Scheme Reserve	**402**			**402**			**402**			**402**			**402**			**402**
Monies held in Trust																
Comp- 3 Children When Reach 18	**3**			**3**			**3**			**3**			**3**			**3**
Emily Briggs Trust	**17**			**17**			**17**			**17**			**17**			**17**
S. Thorpe Smith Bequest	**33**			**33**			**33**			**33**			**33**			**33**
Total General Fund Reserves	**49,102**	**3,394**	**(15,112)**	**37,384**	**5,124**	**(7,013)**	**35,495**	**6,515**	**(3,448)**	**38,562**	**1,875**	**(1,036)**	**39,401**	**899**	**(1,000)**	**39,300**
HRA Capital Investment Reserve	**4,826**	3,621	(150)	**8,297**	3,995	(1,334)	**10,958**	4,551		**15,509**	2,786		**18,295**	2,827		**21,122**
Hra Heating Reserve	**353**			**353**			**353**			**353**			**353**			**353**
HRA Repairs Contract Pension Reserve	**120**	60		**180**	60		**240**	60		**300**			**300**			**300**
Total HRA Reserves	**5,299**	**3,681**	**(150)**	**8,830**	**4,055**	**(1,334)**	**11,551**	**4,611**	**0**	**16,162**	**2,786**	**0**	**18,948**	**2,827**	**0**	**21,775**
TOTAL EARMARKED RESERVES	**54,401**	**7,075**	**(15,262)**	**46,214**	**9,179**	**(8,347)**	**47,046**	**11,126**	**(3,448)**	**54,724**	**4,661**	**(1,036)**	**58,349**	**3,726**	**(1,000)**	**61,075**

SOUTHEND-on-SEA BOROUGH COUNCIL

Medium Term Financial Forecast

	2015/16 £000		2016/17 £000		2017/18 £000		2018/19 £000	
Base Budget								
From prior year	**133,381**		**127,981**		**120,786**		**116,302**	
LESS								
Approporiations to/from Reserves in prior year	11,723		1		(3,067)		(839)	
Revenue Contributions to Capital	(1,113)		(3,090)		(2,140)		(350)	
Less other one-off expenditure/savings	(10,598)		2,815		3,782		(650)	
Adjusted Base Budget		133,393		127,707		119,361		114,463
Appropriations to/from reserves		(1)		3,067		839		(101)
Revenue Contributions to Capital (funded from Earmarked Reserves)		3,090		2,140		350		350
Other one-off/time limited expenditure bids		(2,815)		(3,782)		650		543
Inflation and other increases		1,490		2,240		2,240		2,240
Corporate Cost Pressures		(258)		1,978		1,779		1,521
Directorate Savings/Pressures								
On-going Corporate and Directorate cost pressures allowance	3,090		1,400		1,400		1,400	
Savings identified as per Budget Council	(10,500)	(7,410)	0	1,400	0	1,400	0	1,400
Better Care Fund								
NHS funding to Support Social Care and benefit Health	(5,518)		(5,518)		(5,518)		(5,518)	
Expenditure relating to the NHS funding	5,518	0	5,518	0	5,518	0	5,518	0
Housing Revenue Account								
Projected Expenditure	28,792		27,817		30,511		31,214	
Projected Income	(31,513)		(32,428)		(33,297)		(34,041)	
Contributions to/(from) HRA Earmarked Reserves	2,721	0	4,611	0	2,786	0	2,827	0
Schools								
Dedicated Schools Grant received from Government	(71,093)		(71,093)		(71,093)		(71,093)	
Dedicated Schools Grant distributed to schools	71,093		71,093		71,093		71,093	
Pupil Premium received from Government (indicative)	(6,019)		(6,019)		(6,019)		(6,019)	
Pupil Premium distributed to schools	6,019	0	6,019	0	6,019	0	6,019	0
Projected General Fund Net Expenditure		**127,489**		**134,750**		**126,619**		**120,416**
Changes in General Grants		492		(264)		(17)		264
Budget Requirement		**127,981**		**134,486**		**126,602**		**120,680**
Funded by:								
Council tax increase (1.95% in 15/16, +1.5% in 16/17 onwards) (taxbase +0.5% p.a.)		(63,303)		(64,571)		(65,867)		(67,188)
Business Rates Retained		(33,062)		(33,731)		(34,488)		(35,314)
Formula Grant		(28,728)		(21,484)		(15,447)		(9,778)
Reserves and Balances		(2,888)		(1,000)		(500)		0
Total funding		**(127,981)**		**(120,786)**		**(116,302)**		**(112,280)**
Funding Gap		**0**		**13,700**		**10,300**		**8,400**

	2015/16	2016/17	2017/18	2018/19
Funding available from Council Tax	63,303	64,571	65,867	67,188
Band D Council Tax				
Council Tax for a Band D Property	*1,159.56*	*1,176.93*	*1,194.57*	*1,212.48*
% Increase in Council Tax	1.95%	1.50%	1.50%	1.50%
Council Tax Base				
Council Tax Base	*54,591*	*54,864*	*55,138*	*55,414*
Increase in Taxbase on prior year	1.55%	0.50%	0.50%	0.50%