AGENDA ITEM NO. 2 (1)

CABINET
17 NOVEMBER 2015

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1518

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2018/19

1 INTRODUCTION

1.1 The Financial Strategy underpins the Council's Corporate Plan and sets out a framework to deliver a stable and sustainable financial position to enable the Council to achieve its strategic objectives.

1.2 It is a fluid strategy, adapting to local and national conditions, which aims to take account of the risks to the Council's financial position and to mitigate against such risk, in order to protect the financial health of the Council.

1.3 The Financial Strategy covers both Revenue and Capital activities and sets the framework for the production of the Medium Term Financial Forecast and Annual Budget.

1.4 As we now move into the next budget-setting cycle, it is appropriate to review and update the strategy in response to internal and external factors such as changing corporate priorities, the prevailing economic conditions, government policy and changes to funding mechanisms

2 STRATEGY REVIEW

2.1 The key risks and considerations for future budget planning are set out below:

2.1.1 <u>Central Government Funding</u>

In the past, Government funding of local services has been for a number of reasons, such as:

- To support services such as education, which are of importance nationally,
- To enable authorities to provide a similar range and level of services at broadly the same cost to local tax payers across the country,
- To influence local spending on some services,
- To encourage implementation of central government initiatives, and
- To redistribute resource from one part of the country to another.

However, the changing face of local government funding has meant a shift in risk and responsibility to local authorities, coupled with major reductions in funding for the sector as a whole. Both Business Rates Retention and Localised Council Tax Support Schemes have passed additional risk to local authorities balanced by some increased flexibility particularly around the level of reliefs, discounts or exemptions awarded.

In addition, a number of grants have been subsumed into the general Revenue Support Grant and the majority of grants are provided without being ring-fenced for specific uses, allowing greater flexibility at a local level.

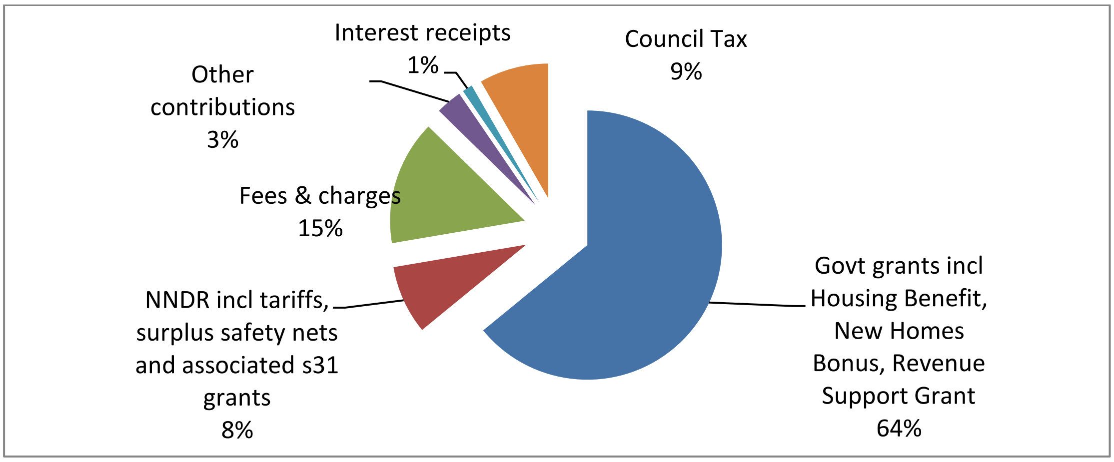
The funding formula itself, sitting within the mechanism for allocating local authorities' start-up funding assessment each year, contains complex and potentially out-dated methodology for re-allocating resources between areas.

In October, the Chancellor announced plans for Councils to retain all business rates collected locally rather than the current system whereby 50% of the rates collected are pooled centrally and redistributed back to local authorities. Councils will retain the £26bn raised in business rates in exchange for taking on extra responsibilities. They will be able to reduce rates where they think this will attract new business to their areas and, where there is an elected mayor, will be able to raise rates for local infrastructure improvements if supported by local business and within certain limits. It is difficult to assess what impact these changes will have locally as a system of national redistribution will still need to be in place to protect poorer Councils. These changes will be phased in over the period to 2020.

Of more immediate concern for Rushmoor is the future for New Homes Bonus (NHB). This is currently allocated to Councils based on the number of additional homes brought onto its Council Tax Base each year, with additional funding for social housing and for bringing long-term empty properties back into use. NHB currently brings Rushmoor significant income (£1.7 million for 2015/16) which it uses to support day-to-day spending on services. The future for NHB is uncertain and although moves to redistribute this funding in 2014/15, by top-slicing to Local Enterprise Partnerships, did not go ahead, it highlights the necessity to move away from reliance on forms of funding that could significantly change, or even stop, in the near future.

2.1.2 Council Tax

Council Tax currently forms around 9% of our total income as the following chart illustrates.



Currently, if Council's increase their Council Tax by, or above, a certain pre-announced percentage (2015/16 2%) then they have to arrange a referendum for taxpayers to approve the increase. This, alongside the availability of Council Tax Freeze Grants, has contributed to keeping Council Tax levels relatively stable in recent years, with little growth, other than through growth of the tax base itself.

National average Band D Council Tax percentage change 2005/06 – 2015/16

Year	£	% change
2005/06	1,214	4.1
2006/07	1,268	4.5
2007/08	1,321	4.2
2008/09	1,373	3.9
2009/10	1,414	3.0
2010/11	1,439	1.8
2011/12	1,439	0.0
2012/13	1,444	0.3
2013/14	1,456	0.8
2014/15	1,468	0.9
2015/16	1,484	1.1

Source: BR and CTR forms; DCLG

At Rushmoor, our share of the Band D Council Tax has remained at £184.07 since 2010/11. Council Tax Freeze Grants have, on the whole, been rolled up into baseline funding as permanent funding, however this has been, and is likely to continue to be, eroded or 'dampened' over time as Revenue Support Grants decrease. There is no guarantee that Freeze Grants will be offered in the future.

2.1.3 Austerity

Spending cuts will continue throughout the life of this parliament as measures are taken to tackle the national budget deficit. Local government has done well to absorb the cuts to date but this is likely to continue for some time yet. Transformational change is now required to deliver the level of savings that will not only meet the funding reductions expected but also put the Council in a stable position for the future. Thus reducing our reliance on sources of funding that are uncertain and outside of our control.

2.1.4 Interest Rates

Expectations for the first rise in the Bank rate (base rate) have moved out to the third calendar quarter of 2016. The pace of interest rises will be gradual and the extent of rises limited. The appropriate level for Bank rate for the post-crisis UK is likely to be lower than the previous norm, possibly between 2% and 3%. The weak global environment and resulting low inflation expectations are likely to dampen long-term interest rates. Continued low interest rates have a direct effect on the Council's resources by reducing the potential returns on our investments. The current Treasury Management Strategy seeks to address this by maximising available returns with longer term funds and the use of a diverse portfolio, while putting the security of taxpayer's money at the heart of the policy.

The Council has extensive capital expenditure plans over the medium-term, to deliver Council priorities for regeneration of its town centres, for example; as well as significant invest-to-save projects and investment in property. Interest rates will play a significant part in determining when and how much the Council borrows to support these plans, as our internal capital resources continue to diminish over time.

2.1.5 Level of Reserves

The Council maintains a level of usable reserves to support fluctuations in its revenue position from variations in income and expenditure; while invest-to-save projects deliver longer-term net cost reductions. Key reserves are the Service Improvement Fund, which supports the delivery of invest-to-save schemes, and the Sustainability and Resilience Reserve, which is used to manage short-term fluctuations in net revenue.

The Council needs to consider the level of reserves set aside to support the financial position particularly given the fast pace of change of local government funding and the exposure to risk of fluctuations in business rate income.

Paragraph 2.1.1 above already highlights the risk of reliance on funding streams such as NHB, which could be reduced or withdrawn at short notice. The Council needs to ensure that it has sufficient levels of reserves to cope with such short-term risk whilst it builds up other sources of income and reduces its expenditure.

The Business Rates Retention Scheme (NNDR) brings two elements of risk to the Council.

- The first is caused by the operation of the scheme itself and the accompanying complex legislative and accounting regulations, which mean that variances from estimates of income can have an exaggerated effect on year-end balances. This was demonstrated during the 2014/15 accounts closure process where an increase in business rates income collected for 2014/15 led to an increased surplus being declared for 2015/16 alongside an increased levy payment that had to be disclosed in 2014/15. A short-term drawdown from reserves was used to cover the increased levy payment in 2014/15, whilst the reserves are proposed to be replenished in 2015/16 from the additional surplus generated. If reserves had not been available to cover this short-term timing issue, the general fund balance would have been entirely depleted as at 31st March 2015.

- The second risk is due to the inherent volatility of this large income stream. Income is dependent upon growth or reductions in the local list, the level of reliefs to be awarded through the year and the level of income that needs to be held back to cover successful appeals against business rate valuations. Local business rates income is also concentrated in a number of high value hereditaments (units of property) changes to which have a high gearing effect on the rateable income received by the Council.

The Council's external auditors raised a significant risk in Rushmoor's Audit Results Report for 2014/15 due to the low level of usable reserves available, although the report did conclude that the Council had made sufficient progress in identifying the actions necessary to demonstrate its ability to secure a stable financial position over the medium term.

2.1.6 Devolution

The Cities and Local Government Devolution Bill 2015 forms part of the government's policy of devolving the powers and budgets of public bodies to local authorities and combined authorities, building on City Deals, the formation of Local Enterprise Partnerships and Local Growth Deals. Devolution deals resemble City Deals in that they are negotiated bi-laterally between central government and selected local areas highlighting the Government's preference for a body covering a wider economic footprint.

Rushmoor is part of a Hampshire and Isle of White bid (encompassing Hampshire County Council, Southampton and Portsmouth City Councils and 11 Hampshire District or Borough Councils) currently being considered by central government. Our devolution prospectus sets out how the combined authority will deliver improved local outcomes in return for various additional flexibilities from central government. The key financial impact for Rushmoor is that the devolution proposal includes moving to 100% of business rates retention in place of the current grant system. While the Chancellor recently announced a move for all Councils towards 100% retention, the details of that scheme are not yet known. Early negotiation on a local retention scheme may offer additional benefits and deliver earlier than the yet to be finalised national scheme.

Local devolution of business rates will necessitate a locally determined method of redistribution within the Combined Authority. Initial thoughts are that this will be based on a principle of no authority being worse off under the new scheme than the existing scheme, and will also combine elements of reward for growth and for need.

2.1.7 Other

Other key risks include:

- Loss of income and chargeable services,
- Increased demand for services,
- Consequences from the challenges facing the Eurozone and other wider economic disruption, and
- Welfare Reform, with potential loss of benefits for some parts of the community leading to greater demand for support via Council services.

2.1.8 Sustainability

With these key risks in mind, the Council must continue to strive towards sustainability by looking at our priorities, reviewing what we do and how we do it. This will form the underlying basis of the Financial Strategy, ensuring that this delivers the Council's corporate objectives within a balanced budget in the short-term and within a sustainable financial framework over the medium to longer term.

The Financial Strategy sets the context for the Council's 8-Point Plan, which is the delivery mechanism for financial sustainability, and the tool by which delivery of the various elements can be measured and managed.

3 MEDIUM TERM FINANCIAL FORECAST

3.1 For the Financial Strategy to be relevant to current decision-making, it needs to be considered in light of a revised Medium Term Financial Forecast (MTFF). In such a fast-moving environment, amid high-level announcements about the future of business rates, amid ongoing negotiations for a Hampshire-wide devolution deal, and ahead of the Autumn Statement (November 25th) and the subsequent Local Government Financial Settlement, the forecast can only be a high-level indicator of the direction of travel for the Council's finances over the medium-term.

3.2 The Forecast needs to be robust enough to set strategic financial direction without being a detailed budget plan for future years. It takes into account known budgetary pressures, for both Revenue and Capital expenditure, alongside estimates of future funding.

3.3 While estimates have been built for various scenarios, no assumptions have been included for potential devolution as it is too early in the process to determine the impact on funding for Rushmoor.

3.4 <u>Revenue Forecast</u>

3.4.1 The Medium Term Financial Forecast for Revenue expenditure includes the day-to-day running costs of our services, any associated income, any corporate expenditure and income (such as interest receivable from investments) and various funding streams such as grants, business rates and council tax.

3.4.2 The starting point for the forecast at Table 1 is the 2nd quarter budget monitoring position for 2015/16 as reported to Cabinet 17th November 2015. After deducting any significant one-off expenditure for the current year, the forecast takes into account major changes forecast for the period up to 2018/19.

Revenue Forecast 2015/16 - 2018/19	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Net Revenue Budget	13,614	13,614	13,457	13,860
Cost Pressures:				
Base adjustments (one-off items for 2015/16)		(855)		
Pay award/Increments		188	188	188
Inflation/contract growth		110	135	145
Pensions		50	50	55
Contracting out		200		
Variations in Service		100	50	50
Additional contributions to capital outlay		50	50	50
Additional interest receipts			(70)	(100)
Total Cost Pressures		(157)	403	388
Transfers to/(from) Reserves:				
Stability & Resilience Reserve	3,379			
General Fund balance	(14)	50	50	50
Total Transfers to Usable Reserves	3,365	50	50	50
Adjusted Net Revenue Budget	16,979	13,507	13,910	14,298
<u>Funding:</u>				
Other grants	(95)	-	-	-
New Homes Bonus	(1,696)	(1,968)	(1,968)	(1,968)
Revenue Support Grant	(1,756)	(1,174)	(692)	(466)
RBC share of rates collected	(18,620)	(18,993)	(19,373)	(19,760)
Tariff payable	15,178	15,482	15,792	16,107
Levy /(Safety net)	848	865	882	900
s31 Business Rates Grants	(471)	(480)	(490)	(500)
Council Tax	(5,476)	(5,641)	(5,811)	(5,986)
Collection Fund (surplus)/deficit - CTax	(150)	(75)	(75)	(75)
- NNDR	(4,354)	(279)		
Total Funding	(16,592)	(12,263)	(11,735)	(11,748)
Annual Funding Gap	387	857	931	375
Cumulative Funding Gap	387	1,244	2,175	2,550

Revenue Balances	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
General Fund Balance	1,624	1,674	1,724	1,774
Stability & Resilience Reserve	3,379	3,379	3,379	3,379
Service Improvement Fund	532	266	-	-
Estimated Balances at 31 March	5,535	5,319	5,103	5,153

3.4.3 The following assumptions have been made in the forecast:

- Pay awards of 1% p/a plus incremental progression within grades,
- Increased pension liability,
- Cost of changes to the scheme for contracting out of the state pension
- An allowance for one-off and on-going variations in service,
- Continuing the policy of increasing our contributions to capital expenditure annually by £50K,
- Additional interest receipts due to eventual increase in bank rate and other investment factors,
- Assumed increase in business rates income of 2% per annum
- On-going reductions in Revenue Support Grant,
- Continuation of New Homes Bonus as per current scheme,
- 1.99% increases in Council Tax year on year commencing 2016/17
- 1% growth in Council Tax base, and
- Modest increase of £50K per annum to general fund balances

3.4.4 The forecast shows a projected budget gap of £2.5m by 2018/19, based on the assumptions above. Some of these assumptions relate to inherent risk within the forecast, such as the level of business rates income, which could go up, or down. However, the forecast also contains a number of choices that the Council is able to take, which will directly affect the level of savings required and the level of reserves available to build resilience into the model. For example, the Council could choose to;

- Hold Council Tax at current levels
- Provide for additional sums to be set aside for Stability and Resilience or Service Improvement over the medium term
- Reduce reliance on New Homes Bonus over time by taking it to reserves rather than using it for on-going revenue funding
- Review the policy of increasing revenue contributions to capital outlay which may no longer be appropriate, given the diminishing level of core capital reserves, the size of estimated capital expenditure and the potential move towards borrowing

3.4.5 Table 2 shows the effect on the funding gap and the level of reserves if the Council were to exercise these options. The Council could choose to exercise just some of these options or to vary the amount, or timing of transfers.

Impact of additional options on funding gap	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Cumulative Funding Gap (from table 1)	387	1,244	2,175	2,550
No increase in Council Tax		110	225	344
£200,000 per annum to S&R Reserve		200	200	200
Reduction in NHB 20% per annum		394	708	960
No increase in RCCO		-50	-100	-150
Annual Funding Gap (revised)	387	1,511	1,311	696
Cumulative Funding Gap (revised)	387	1,897	3,209	3,904

Impact of additional options on revenue reserves	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
General Fund Balance	1,624	1,674	1,724	1,774
Stability & Resilience Reserve	3,379	3,579	3,779	3,979
Service Improvement Fund	532	266	-	-
NHB Funding		394	708	960
Estimated Balances at 31 March	5,535	5,913	6,211	6,713

3.4.6 While the out-playing of these options is to increase reserves available to support fluctuations in net revenue expenditure, there remains a risk that NHB funding stream will reduce rather than be available to move to reserves.

3.4.7 These options also increase the size of the funding gap and the medium term forecast deficit. The Council plans to close the gap by use of the 8-Point Plan as referred to in section 2. The plan includes a range of projects that aim to generate increased income, either from existing or new income streams, and cost reductions.

8-Point Plan Cumulative Indicative Values	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
8 Point Plan - Cost Reductions				
- Efficiency savings (Channel Shift/Systems Thinking)	(64)	(205)	(330)	(330)
- Better Procurement & major contract renewal	(25)	(100)	(400)	(400)
8 Point Plan - Income Generation				
- Investment in Property	(65)	(562)	(784)	(994)
- Better use of existing assets (Co-location/Car parks)	(7)	(105)	(130)	(130)
- Alternative investment opportunities		(20)	(144)	(180)
- Other income generation projects (including advertising)	(162)	(355)	(355)	(355)
- Reviewing fees and charges		(35)	(35)	(35)
Total Potential Revenue Generated	(323)	(1,382)	(2,178)	(2,424)

Cumulative Funding Gap	387	1,244	2,175	2,550
Deficit	64	(138)	(3)	126

3.4.8 The table above shows the original funding gap being largely met via income or savings generated by the 8-point plan. However, the current deliverables would not meet the revised deficit, if the Council chose to exercise the options described in 3.4.5. A number of options for delivering against a larger deficit are described in the following paragraphs.

3.4.9 Heads of Service are being asked to draw up efficiency plans for their services, using the workbook methodology that has been developed recently. This involved splitting out cost centres into specific work areas, which were then scored against the Council's priorities to provide a ranking system. Tasks can then be considered in light of their contribution to those priorities, their cost, whether they generate income and whether they are statutory or organisationally critical. This aids review as to whether the item could be performed more efficiently or even stopped altogether. The Budget Strategy Working Group is currently reviewing the methodology and how it may be used to secure future savings.

3.4.10 Some of the projects within the 8-Point Plan are at an early stage of development, for example, developing a trading arm or investigating options for residential investment, and therefore have no financial benefits attached as yet. The 8-point plan is a fluid plan, with new schemes coming forward as current projects are delivered. While it is important to recognise the resource constraints to delivering too many projects at once, it should be noted that additional income will be delivered from these projects, which could be escalated, or reserves could be used in the short term to meet the timing gap. In addition, projects such as investment in property can be flexed depending on the timing and level of affordable capital expenditure and the returns secured.

3.4.11 There is a great deal of uncertainty around the size and phasing of Revenue Support Grant reductions and the continuation of New Homes Bonus which will only become clear after the Local Government Finance Settlement has been announced in December. This could significantly alter the level of savings required in the Medium Term Financial Forecast and the final budget for 2016/17 will be considered in light of any changes coming out of the Autumn Statement and the Finance Settlement.

3.5 Capital Forecast

3.5.1 The Medium Term Financial Forecast for capital expenditure includes the costs of acquiring or maintaining fixed assets such as land, building or equipment. The capital programme concentrates on four key areas – asset maintenance, invest to save projects, regeneration schemes and support to housing such as Disabled Facility Grants and grants to Registered Social Landlords.

3.5.2 The following forecast is based on the latest bids for capital expenditure for 2016/17 to 2018/19, with a small allowance in future years for additional projects. Much of the expenditure is offset by external contributions, for example developer contributions, to give a net cost to Rushmoor of £18.6m over the medium-term, which would be funded by past capital receipts.

Forecast Capital Programme 2015/16 - 2018/19	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Cap Ex for Identified Annual Programme	9,290	10,867	5,088	1,150
Cap Ex for Unidentified Future Items			1,000	1,000
	9,290	10,867	6,088	2,150
Less: Grants & Contributions	(3,560)	(3,205)	(1,247)	(1,787)
Net cost of Forecast Capital Programme	5,730	7,662	4,841	363

3.5.3 Rushmoor's capital receipts reserve was £19.6m at the start of 2015/16 and would therefore be almost completely depleted by the end of the forecast period based on the core capital programme spending. In addition, there are a number of invest-to-save projects within the 8-Point Plan, which are not yet fully included in the capital programme as they are still at development stage (such as investment in property) which will also be a significant draw on capital resources.

3.5.4 The Council has also set regeneration of its town centres as a strategic priority, which will lead to significant redevelopment schemes within both Aldershot and Farnborough. It is too early at this stage to estimate the costs and timing of these projects or the extent of external funding, future income or capital return that these developments may generate. Nevertheless, they should be considered to obtain a more realistic picture of the level of capital expenditure over the medium term and consequently the impact on core capital reserves and the need for future borrowing.

3.5.5 With the potential expenditure on both invest-to-save projects and strategic priorities, the Council could move to a position of prudential borrowing as early as 2016/17. Levels of borrowing will be subject to the pace of investment but could be in the region of £20 million - £30 million by the end of the forecast period.

3.5.6 The Council will first seek to alleviate the pressures on its internal capital resources by maximising alternative sources of funding such as Growth Deals, administered by Local Enterprise Partnerships, or by seeking private sector funding to support regeneration plans. In addition, some of the expenditure above is repayable in later years (for example, loan arrangements under the Annual Programme) or will see future capital receipts once assets have been redeveloped and sold, thus replenishing some of the capital receipts. However, it is evident that the Council will need to use its invested capital receipts and move to borrowing, both of which will impact directly on its revenue budget (through reduced interest receipts and costs of borrowing).

3.5.7 It should be noted that the Council will only invest as long as its capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment by the Council is the availability of capital resources and the scope to afford the financial implications in revenue terms. Given this context, it would be prudent to amend the current strategy of increasing revenue contributions to capital, as the revenue budget is under increasing pressure to support both the revenue and capital plans. Instead, the current contributions could, when required, be used to support the future borrowing requirements of the Council.

3.5.8 Council will review prudential indicators for capital finance, including borrowing limits, in February, as part of the annual Treasury Management Strategy.

4 CONCLUSIONS

4.1 The Financial Strategy as set out at Appendix A sets a framework for managing the Council's finances within the context of the Corporate Plan.

4.2 The Council has taken significant steps to reduce its cost base whilst protecting front line service delivery, keeping Council Tax low and continuing to invest in the future through annually reviewing its priorities and undertaking key invest-to-save and regeneration projects.

4.3 The 8-Point Plan will produce significant efficiency savings over the medium term from a combination of service efficiency reviews, procurement savings, invest-to-save projects, new income generation and decisions on the structure of the Council.

4.4 However, the Council continues to face significant financial challenges due to reduced central government funding, increased financial volatility, uncertainty and risk over the medium term. The Council will need to continue to undertake a detailed review of areas where efficiencies can be made in order to realign budgets to meet its priorities and to develop new income streams to support current spending plans.

4.5 The Council will need to ensure adequate risk reserves are maintained to provide capacity to invest in service transformation and to hedge against future shortfalls. The use of reserves is not a long-term solution to funding challenges but does enable the Council to plan and implement service changes over time, whilst providing a buffer against sudden shifts in the Council's income streams. This strategy provides resilience and allows the Council time to approach future funding requirements in a considered, structured way.

4.6 The Council's capital expenditure plans could mean that internal capital resources will be depleted as early as 2016/17. The Council would then need to move to borrowing, the timing and scale of which will depend on the pace of investment, the external funding that can be secured and the ability to absorb the cost of that borrowing in its general fund.

4.7 It is essential that Capital and Revenue plans are considered together, due to their interaction. For example, the Council has formed a strategy using the 8-point plan to use capital expenditure to fund invest-to-save schemes in order to close the revenue funding gap. This in turn puts pressure on capital resources, which will lead to borrowing in the relatively near future, adding pressure on revenue by incurring borrowing costs.

5 RECOMMENDATIONS

5.1 Cabinet to:

(i) Note the principal issues identified in the report and in the summary of risks at Appendix B, and

(ii) Recommend to Council the approval of the Financial Strategy set out at Appendix A

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2018/19

The Medium Term Financial Strategy is based around five key principles. These are set out below with supporting actions for each principle.

Revenue Expenditure - The Council recognises that it has to target its limited resources to where they are most needed. This is supported by one of the five themes that underpin the Council's purpose: Good Value Services – ensuring good services that represent good value for money. The Council recognises the need to reduce its net revenue expenditure in the face of reduced funding from central government, economic pressures, local demography and increased demand for services.

- The Council will set a balanced budget each year, reflecting its objectives, priorities and commitments.

- The Council will seek to deliver efficiencies, new income streams and cost reductions based on the key elements of its 8-point plan for delivering financial sustainability;

- There is no presumption that non ring-fenced grants will be spent on the purposes for which they are nominally provided (appropriate business cases to be provided for spending against such grants)

- Regular review of the Council's fees and charges

- The Council will seek to reduce reliance in its revenue budget on uncertain funding streams such as New Homes Bonus.

Capital Expenditure - the Council will only undertake capital investment in support of its priorities and where its supports asset maintenance, invest-to-save schemes or strategic intent (such as regeneration). Capital spending plans, whether funded from internal resources or through borrowing, will be affordable, prudent and sustainable.

- The Council will develop an asset management strategy that seeks to maximise return on existing Council assets, divest itself of low-performing assets and sets out parameters for investment in property to increase income to the Council.

- The Council will set prudential indicators, including borrowing limits, for capital financing through its annual Treasury Management Strategy ensuring any future borrowing is affordable, prudent and sustainable.

- The Council will explore opportunities for borrowing as the need arises such as Public Works Loan Board, European Investment Bank, through the Local Enterprise Partnership and the UK's Municipal Bond Agency.

- The Council will seek alternative forms of funding to use of its internal resources where possible, maximising the use of external resources such as s106 contributions and funding from Local Enterprise Partnerships and exploring private sector funding opportunities where available.

- The Council will review the estimated level of Revenue Contributions to Capital annually as part of the budget process, the actual level of contribution being dependent on the outturn position each year. Once the Council moves towards borrowing, the contributions to capital will be replaced in the revenue budget by the cost of carrying debt.

- Capital receipts from the sale of assets will be used to meet future corporate priorities rather than be retained for use by the service that has relinquished the asset

- Resources allocated to particular capital projects but subsequently not required are returned to meet future corporate priorities rather than be retained for use by that service

- No new capital schemes are included in the programme without the necessary resources to meet the full capital costs and any on-going Revenue costs being in place.

- All new capital schemes are subject to the bid process for inclusion in the Capital Programme, which requires whole life costing for new bids for the current revised budget and for the upcoming year. Indicative bids are required for future years in order to have a picture of capital spending over the medium term but these later projects will require business cases and further approval as they come forward. New capital schemes brought forward in-year are supported by business cases and reported to DMB and Cabinet in line with current financial regulations.

Reserves - the Council will maintain a reasonable level of usable reserves to enable it to weather the volatility of its funding position and to support invest-to-save schemes as part of its aim to reduce net revenue costs.

- The Council will maintain its General Fund balance between £1 million and £2 million.

- In addition, the Council will maintain other usable reserves (E.g. Stability & Resilience Reserve/Service Improvement Fund) to provide a buffer against fluctuations in income and expenditure and to support invest-to-save schemes. The estimated level of these usable reserves (including the General Fund Balance) at the close of 2015/16 is £5.5 million, which is around 6.5% of the Council's gross expenditure. The Council will aim to maintain a minimum level of reserves at 5% of gross expenditure, while recognising that the figure may go up or down, adjusting to short-term pressures within the revenue budget principally as a result of the operation of the Business Rates Retention Scheme.

- Reserves are not used to meet on-going, unsustainable levels of expenditure but may be used in the short-term in conjunction with plans to reduce net revenue costs over the medium-term

- Regular review of all reserves in order to:

    - Maintain and replenish funds which will be used to mitigate the substantial risks identified over the medium term

    - Maintain reserves to support the provision of major projects, invest-to-save schemes or service reviews in order to support the work of the 8-point plan as referred to above

    - Release those reserves which are no longer required due to changing circumstances

- The Council will annually review the level of earmarked reserves it sets aside to mitigate against known risks or future liabilities, to ensure that the level of those reserves remains appropriate, returning balances no longer required to the General Fund.

Governance and Performance - the Council will monitor the delivery of its financial strategy and performance against savings requirement, adjusting the plans to meet changing demands. This will be achieved by:

- Annual review of key strategies such as Medium Term Financial Strategy and Treasury Management Strategy, with updates to relevant Committees, Policy and Review panels and Cabinet as appropriate.

- Continuous improvement of governance and project management of key programmes and projects, ensuring benefits of invest-to-save projects are realised.

- Ensuring that the Council's budgets, financial records and accounts are prepared and maintained in line with accounting standards, CIPFA Code of Practice on Local Government Accounting, the CIPFA Prudential code and relevant sections of the Council's Constitution and Financial Regulations.

- Timely budget and performance monitoring arrangements (through budget monitoring and quarterly performance monitoring reports).

- Preparation of financial plans to cover a four-year period, including revenue and capital expenditure, Tax bases and Council Tax Support Scheme.

- Budget guidelines are maintained and reviewed annually by the Council's s151 officer.

- New spending plans are considered only if they make a clear contribution to the Council's objectives and priorities or meet new statutory responsibilities.

- Ensuring proposals for significant projects and changes are set out in an appropriate business case to assess the impact on the Council.

The Council will seek out opportunities to work with partners to maximise outcomes for our residents, explore access to funding and maximise the shared benefits of joint working.

- The Council will explore joint working opportunities or shared services where they add benefit to the Council or its residents with partners including (but not exclusive to):

    - County Council
    - Police
    - Fire and Rescue Authority
    - Other local authorities
    - Local Enterprise Partnership
    - Voluntary and Community sector
    - Private sector

- The Council will seek to maximise the financial benefit and security of any potential devolution deal with government.

- The Council will seek to optimise external funding opportunities to defray cost of services and capital investment or to increase available resources.

APPENDIX B

SUMMARY OF RISK ASSESSMENTS

Risk	Level	Mitigation
Overall government funding through formula grant and business rates is less than assumed.	HIGH (RED)	Assess impact of Local Government Settlement at earliest opportunity, monitor impact of any changes to the business rates retention scheme and revise forecasts as necessary
Planned efficiency savings and savings targets are not achieved.	HIGH (RED)	The Council has developed an 8-point plan towards financial sustainability with on-going review of the plan in respect of timescales, deliverability and net benefits. The Council has also set aside Reserves to support invest-to-save schemes and to mitigate against the effects of fluctuations in net revenue spending while longer-term sustainability plans are moved forward.
Reduction in interest income due to low interest rates or investment returns being lower than budgeted for.	MEDIUM (AMBER)	Interest rate risk is managed through the Treasury Management Strategy, which has moved towards longer- term, pooled funds and other fixed rate instruments to protect the Council from the impact of low base rates. Mid- and year-end monitoring reports are produced on all treasury management activity, in addition to reporting during the budget monitoring cycle. Capital expenditure, which reduces the core reserves available for investment, will only be undertaken where prudent and affordable.
Fees and Charges income does not achieve the assumed levels.	MEDIUM (AMBER)	The Council has a well-developed in-year budget monitoring process that identifies any variations early to allow corrective action to be taken. The Council also maintains a Stability and Resilience Reserve to mitigate against large fluctuations in its income streams in the short term, while longer term plans to reduce net expenditure are being progressed.
Legislative changes not anticipated.	MEDIUM (AMBER)	Keep up to date with Government policy and consultations.
Expenditure is not contained within approved budgets.	LOW (GREEN)	The Council has a well-developed in-year budget monitoring process that identifies any variations early to allow corrective action to be taken. A reasonable level of usable reserves is maintained to meet any unavoidable unexpected costs.
Unplanned expenditure requirements.		
External grants and contributions are less than forecast.		