Attachment D

West Suffolk
Medium Term Financial Strategy (MTFS)
2014-16

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DRAFT FOREWORD FROM THE PORTFOLIO HOLDERS OF THE COUNCILS

We are delighted to introduce the West Suffolk Medium Term Financial Strategy (MTFS) for 2014-16. This document sets out the approach that Forest Heath District Council and St Edmundsbury Borough Council will take to the sound management of our finances over the next two years. Whilst we remain two councils, with two separate budgets, there are many similarities in our approach to meeting the financial challenges we face. We are therefore working together to build common strategies, and to share learning from one another in designing new approaches, although how these approaches apply to the different localities in West Suffolk may still vary.

The councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. In this context, and like many other councils, we have to make difficult financial decisions. However, we are both confident that the two councils' budgets represent a sound and prudent financial base for the medium term, while prioritising essential services and minimising any increase in council tax.

The key driver over the last two years has been the delivery of the shared services agenda. This has already delivered £3.5 million in savings across the two councils. By delivering these staffing changes through a shared services approach we have been able to stay ahead of the curve of financial pressures, designing services to maintain capacity and resilience and not putting ourselves in a position where the need for budgetary savings dominates the agenda in a negative way. We are proud of what our fellow councillors and staff have achieved, and of how our partners have adapted to working alongside West Suffolk. However, the savings we have achieved from shared services cannot continue to meet all of the financial challenges we face.

Over the next two years, we will be adopting some new ways of working that take advantage of new forms of funding, new technologies and new opportunities that are available to councils. This will allow us to ensure we can meet the priorities set out in our West Suffolk Strategic Plan 2014-16, and to continue to carry out our day-to-day responsibilities within a financially constrained environment. The vision, priorities and projects set out in the Strategic Plan have shaped and informed real choices about the allocation of resources within this MTFS.

Some of the new ways of working will involve decisions about how our councils invest resources and both councils have aspirations to be 'investing authorities' in support of the delivery of the councils' strategic priorities, in particular to aid economic growth across West Suffolk.

In summary, based on the work that we have done, the councils remain in a sound financial position with a balanced budget and sufficient reserves to manage the anticipated budget risks over the medium term.

Furthermore, we are pleased to have been able to freeze both councils' element of the council tax for the fourth successive year, in recognition of the difficult times faced by many of our residents.

Councillor David Ray
Portfolio Holder for Resources
and Performance
St Edmundsbury Borough Council

Councillor Stephen Edwards
Portfolio Holder for Resources,
Governance and Performance
Forest Heath District Council

PURPOSE OF THIS DOCUMENT

The Medium Term Financial Strategy (MTFS) provides a high-level assessment of the financial resources required to deliver West Suffolk's strategic priorities and essential services over the next two years. It considers how the councils can provide these resources within the financial context and constraints likely to be faced.

Like all local authorities, Forest Heath and St Edmundsbury's MTFS is influenced by national government policy, funding and spending announcements. The government have announced detailed spending plans for the financial years 2014/15 and 2015/16. This MTFS therefore only provides an assessment of our financial strategy until 2016. Spending plans for the following years are likely to be announced by the government after the General Election in May 2015.

It must be stressed that we are two councils, with two separate budgets as shown in the 'summary of our financial position' section of this document. There are, however similarities in our approach to meeting the financial challenges. We are therefore working together to build common strategies, and to share learning from one another in designing new approaches, although how these approaches apply to the different localities in Forest Heath and St Edmundsbury, may still vary.

NATIONAL ECONOMIC CONTEXT

The economy

The UK economy has gained momentum through 2013, GDP growth has exceeded forecasts, and there are early signs that growth is balanced across the main sectors of the economy. The factors which weighed on UK growth between 2010 and 2012 – the euro crisis, commodity price inflation and the impact of the financial crisis – are abating, but external risks remain. The euro area sovereign debt crisis has stabilised, though activity remains subdued. Growth in emerging markets was disappointing in 2013, and in some cases their financial and currency markets have proved sensitive to the effects of US monetary policy.

Britain's economy is expected, according to the government's independent forecasters, the Office for Budget Responsibility (OBR), to grow 1.4% in 2013 year and 2.4% in 2014. This outlook is significantly higher than the March forecasts of 0.6% for 2013 and 1.8% for 2014. These estimates put Britain ahead of other economies in Europe. The International Monetary Fund forecasts (IMF) growth of 1% for the eurozone next year and 1.4% for Germany, the currency bloc's largest economy. The IMF's forecast for UK growth in 2014 is 1.9%.

RPI annual inflation for November 2013 was +2.6% (+2.6% in October). The OBR expects the rate of inflation to slow between 2013 and 2016, returning to the 2.0% target in the second half of 2016.

Monetary policy has a critical role to play in supporting the economy with the Monetary Policy Committee (MPC) continuing to maintain Bank Rate at 0.5%, although early indications are that this may change during 2014.

Government borrowing and spending

The Government’s intention to reduce the UK’s current budget deficit and level of debt, through public spending control, is well documented, particularly in the 2010 and 2013 Spending Review announcements, and recent Budget announcements.

Looking beyond 2014-15, the Chancellor’s Autumn Statement in December 2013 made it clear that the austerity programme to reduce the structural deficit will need to continue, and on the same trajectory until 2018. This statement along with the continued commitment to protect services such as the National Health Service and support for social care, will almost certainly continue the pressure on the local government sectors overall national budget.

Changes to local government financing

April 2013 marked a new era in the way that local government is funded. The Government introduced the Business Rates Retention Scheme and the local Council Tax Reduction Scheme. It also gave new powers for councils to reduce the levels of council tax discount and exemptions for second homes and some classes of empty properties.

Local government is now funded from three main sources; council tax, revenue support grant and a share of business rates income. Council tax income continues to be the main source of funding, in total value, for local authorities. However, both Forest Heath and St Edmundsbury have continued to deliver council tax freezes in the last three years.

Business Rates Retention

The introduction of business rates retention will have a significant effect on councils, as future changes to the business rates yield will directly impact on council funding levels, with both the risks and rewards of business rate growth (or contraction) being shared between central government, and local authorities. In order to help manage this risk, and to maximise the potential value of business rates that are retained within Suffolk, Suffolk County Council and each Suffolk district/borough council has agreed to enter into a business rates pooling arrangement where a percentage of the business rates collected by each councils goes into a single fund. By providing a significant sum, pooling also provides an incentive for Suffolk councils to collaborate to achieve economic growth in the region.

Local Council Tax Reduction Scheme

The 2012 Welfare Reform Act abolished Council Tax Benefit (CTB) and replaced it with a requirement for local councils to create their own Local Council Tax Reduction (LCTR) schemes, which came into effect in April 2013. Council Tax Benefits were previously 100% funded by central government, but now the LCTR scheme is funded through a cash limited annual grant, the amount of which is some 10% less than previously received under the CTB scheme. In West Suffolk, the shortfall in funding is met in part from working age claimants under the new LCTR scheme, in order to incentivise work, with the balance coming from taking advantage of new powers around council tax changes to discounts and exemptions on second homes and some empty properties.

New Homes Bonus

The New Homes Bonus (NHB) scheme provides local councils with a grant that can be spent on any council activity or service (it is not ring-fenced for housing). It is equal to the national average for the council tax band on each additional property built in the council's area, or on each long-term empty property that is brought back into use, and is paid for the following six years. The assumptions in the West Suffolk MTFS do not include NHB allocations beyond 2014/15 as there is a likelihood that future payments will be funded by central government taking away some revenue support grant ('top slicing') or by retaining a proportion of Business Rate monies that otherwise would be available locally.

Disabled Facilities Grants

In 2015/16 all of the current £220m central government funding for Disabled Facilities Grants (DFG) will be transferred into the Better Care Fund (formally known as the Integration Transformation Fund). This fund is designed to be a 'single pooled budget for health and social care services to work more closely together in local areas based on a plan agreed between the NHS and local authorities'. The planned uses of the fund have to be developed by Clinical Commissioning Groups (CCGs) and councils (usually top tier, which in Suffolk is the County Council) and signed off by the local Health and Wellbeing Board. It is not clear to what degree district councils (such as Forest Heath and St Edmundsbury) or housing representatives will be engaged in this process. However, failure to include housing and home adaptations in the Better Care Fund Plan could result in a lack of funding for DFG and housing related support which in turn will have a direct impact on both Forest Heath and St Edmundsbury (as it remains our responsibility to deliver DFG's).

LOCAL CONTEXT

Both Forest Heath and St Edmundsbury financial position is based on each of our financial circumstances, local demand and opportunities. The 'summary of our financial positions' section of this document details each council's individual financial standing. The following section provides an overview of the local context in which both councils operate within West Suffolk.

The local economy

1) Economic growth
Our geographical position means while we are very much part of the county of Suffolk, we are also part of the wider Cambridge economy and the A14 and A11 transport links tie us into the wider geography of East Anglia for key issues.

We play a significant part in the Cambridge Housing Sub-Region as well as the New Anglia LEP and the Greater Cambridge, Greater Peterborough LEP. Councillors recognise the opportunities this creates and are committed to maximising them but there is also recognition that this proximity brings challenges as well, including high house prices and rental levels alongside demand for housing that is not being supplied within the Cambridge area.

2) Better housing
West Suffolk is facing increasing demands for housing both in the public and private sectors. There is a need to ensure housing is affordable whether to rent or buy, which is challenging in an area with historically low wages and pressures on house rental prices. We recognise the need not only for more homes but also a range of different types of housing suitable for the varying needs for our growing and ageing population as well as homes to suit local demand from first time buyers, those that are retiring, and sites for Gypsies and Travellers.

3) Families and communities
When measured at the local authority level, the populations of Forest Heath and St Edmundsbury Borough Councils appear to be relatively affluent, and experiencing lower levels of deprivation and social upheaval than many other parts of the country. However, this overall picture masks pockets of real deprivation in certain wards and a wider lack of social mobility.

Increase in service demands

West Suffolk serves a population of 170,700 across two predominantly rural districts in the heart of East Anglia.

The 2001 Census showed that the number of residents over 65 in West Suffolk was slightly below the national average. Improved health and wellbeing has shown an increase in ageing population both nationally and in West Suffolk. The 2011 census shows the percentage of over 65s in West Suffolk has risen to 17.97%; this is now above the national average and projected to increase. Many older people bring a wealth of experience and skills which they are willing to share voluntarily throughout their retirement, and these opportunities need to be developed. Some older people need extensive support to continue living independent lives and this inevitably creates pressures on all public sector services.

West Suffolk has also experienced a period of sustained increase in demand for some of the key services it provides to the most vulnerable members of the community, particularly within housing and our homelessness service.

West Suffolk faces challenges around closing the gaps in educational attainment across the area. While some schools are performing well, some still face challenges in raising educational attainment.

Education is just one element of the complex social issues which have significant impacts on how we fund and deliver council services. Suffolk Family Focus, for example, has identified that 12% of the 'troubled families' in the county live in West Suffolk – a total of 59 families. As well as individual families, there are a number of neighbourhoods in West Suffolk where communities are experiencing real difficulties on a day-to-day basis. Many of the issues facing our residents today are not picked up in statistical analyses, such as loneliness and isolation, a lack of practical support, or mental health problems.

At the same time, our residents expect the public sector to match, or exceed, service levels delivered by the private sector. Council tax is the only visible tax – others are hidden, for example, in VAT on purchases or through pay as you earn (PAYE) deductions from salaries. People expect value for their council tax and prompt, professional and seamless services. The new customer service arrangements will transform our delivery but need resourcing for support systems, such as an efficient, easily accessible and transactional website where people can access services any time of day.

Challenges and opportunities within the changing local government financing regime

The Government's new arrangements for funding local government present local authorities with a higher degree of uncertainty and risk than the previous arrangements. On the other hand, local authorities are now more able to control the level of funding they receive, due to the links to new commercial or housing development that they encourage and incentivise in their local areas. This presents West Suffolk with both challenges and opportunities as the new arrangements bed down.

Funding reductions

Both councils have already faced significant cuts in Government funding and are now expecting our revenue support grants to be almost halved over the next two years 2014-16.

A sustainable future for West Suffolk in the face of funding cuts and spending pressures is dependent upon changes in the way we think about funding local government and how we manage the system.

RESPONDING TO THE FINANCIAL CHALLENGES AND OPPORTUNITIES

Forest Heath and St Edmundsbury are separate councils, with their own individual budgets and requirements. However both councils' response to the challenges and opportunities they have in common are based on six key themes:

1. Aligning resources to both councils' new strategic plan and essential services;
2. Continuation of the shared service agenda and transformation of service delivery;
3. Behaving more commercially;
4. Considering new funding models (e.g. acting as an investor);
5. Encouraging the use of digital forms for customer access; and
6. Taking advantage of new forms of local government finance (e.g. business rate retention).

1. Aligning resources to both councils' new strategic plan and essential services

In previous years, both councils have addressed the need for financial savings by sharing the burden across a range of services and setting savings 'targets' for different parts of the council to achieve. In this MTFS, both councils have instead allocated their individual resources in line with the shared priorities set out in the West Suffolk Strategic Plan 2014-16, and essential services. This has helped to identify areas of both councils' work which could either be scaled back or where (either individually or together) further opportunities for the generation of income could be pursued. The budget-setting process then focused on these non-priority areas, and challenged whether both councils should continue with the activities either at all, or in their current form, in order to ensure they provided value for money to council taxpayers.

The links to the changing role of local government from direct provision and reaction to enabling and preventing, as part our Families and Communities Strategy for West Suffolk, will also start to inform the allocation of the individual councils' available resources. The strategy builds from two key assumptions.

- Changing needs – challenging definitions of poverty and deprivation and also the presumption of public services' role as meeting needs rather than developing and working with the assets within communities.
- Preventing and reducing demand – there are fewer resources and a history of rising demands on public services; we cannot resolve this challenge by trying to do the same things with less money.

2. **Continuation of the shared service agenda and transformation of service delivery**

The shared service agenda has already delivered £3.5 million in savings for West Suffolk which is in addition to local savings made by each council alone. Further change management is planned, however. A Transformation Board has been established to oversee a further programme of activities arising from the business process re-engineering work that was carried out across West Suffolk. This work identified areas of improvement in relation to ICT software, systems and processes, and in particular recommended the creation of a shared West Suffolk website that focuses on transactions (electronic delivery of services), to underpin our shared Customer Access Strategy, and in-vehicle cab or hand-held technology to support the delivery of front-line services.

We have also used the shared services restructure as an opportunity to review how services work together. We have adopted a Business Partner model for support services. The model is designed to add value and provide support and expertise to all service areas and project team.

Sharing services has to be wider than just West Suffolk. A key part in achieving the shift in thinking and working will be the importance of working differently not just across Suffolk but also our partners (statutory, private, community, voluntary and not-for profit). We are building new working relationships where influence is more important than control.

3. **Behaving more commercially**

A key theme running through the work needed to deliver our outcomes is 'behaving more commercially'. Alongside the 'no boundaries' ethos, the need for thinking and acting more commercially and understanding that this isn't simply about higher charges for services has a significant part in delivering a sustainable MTFS.

The Task and Finish Group that is leading the work in this area has identified that behaving more commercially is not limited to income generation through trading and charging. It involves a set of structures, governance, values, working patterns and behaviours that affect all members, all staff and all aspects of both councils' business.

The West Suffolk councils cannot continue to behave in all areas as if they are monopoly providers of services, as this is no longer sustainable in the current or future funding climate. This MTFS therefore relies on more commercial behaviours being adopted in a number of areas of both councils' business.

4. **Being an 'investing authority' and considering new funding models**

Both councils have a long tradition of investing in their communities and look to continue to do so, in support of the delivery of their shared strategic priorities, in particular to aid economic growth across West Suffolk.

It is recognised that following the transfer of the local authority housing stocks both councils have had extensive capital programmes covering the last 5-10 years. These programmes have predominately been funded from both councils' housing stock transfer capital receipt or through the use of new capital receipts from the sale of other council assets.

Depleting capital and revenue reserves and increased pressure on external funding mean that both councils may want to consider investing away from the traditional funding models such as using its own reserves. Instead focus is now on the use of:

- making loans, securing the return of the council's funds;
- joint ventures, sharing the investment required; or
- borrowing, introducing new funds into both councils.

The financing of the chosen funding model itself is a challenge for both councils with limited reserve balances available in the medium to longer term. In order to generate new cash into the authorities and to enable a position of becoming 'investing authorities' means that borrowing, in order to create new cash, is something that both councils are open-minded about.

There are ample precedents which demonstrate that prudential borrowing has become a valuable tool for local government to achieve its strategic objectives. The use of unsupported borrowing (no security to a particular council asset) is both flexible and relatively straightforward.

With this in mind and as borrowing is likely over the medium to long term for both authorities, it is considered prudent to assess each investment opportunity/project on the basis of borrowing and its cost, assessing each project on an equal playing field regardless of their timings within the MTFS or the funding model used.

There are two annual costs associated with borrowing:

- servicing the debt – the interest payable on the loan; and
- repayment of the loan/capital – effectively through a minimum revenue provision (MRP) into the revenue account.

At the time of writing this plan, these costs would be in the region of 4.5% interest (based on a Public Works Loan Board –PWLB, rate over 25 years) and 4% MRP, and therefore in order to assess each project on an equal playing field a target 10% internal rate of return (IRR) will be set in order to cover the cost of borrowing (loan rate to be determined). Naturally a change in interest rate or MRP rate would change the target rate of IRR.

The choice of funding model for each investment opportunity/project will be based on their individual merits, financial return/costs including the comparison to the agreed target internal rate of return and overall risk exposure, considered as part of each business case. Any decision to invest or borrow would be subject to full scrutiny by councillors, through the usual democratic process.

5. **Encouraging the use of digital forms for customer access**

The implementation of our Customer Access Strategy is also an important part of our next phase of development and is inextricably linked to the need for commercial thinking and wider savings programme. The new customer support team, and the way that services interact with it, must have a commercial outlook in order to manage demand and to reduce overheads through encouraging people to self-serve online.

To support the transformation of customer service, councillors have recently approved investment in customer access ICT technology. This will enable us to:

- establish a single view of customer transactions and history;
-
- enable customers to do more of their business with the council online
- enable partnership working between other district, borough and county councils.

There will always be some customers who cannot or do not want to access our services online – whether because they have limited access to the internet, or because they are unfamiliar with this technology. These customers will always be able to reach us in the traditional way. Our goal, though, is to encourage those people who can do their business with us online to do so.

In addition to making customer contact easier to handle, this solution can automate many of the duplicated tasks council employees normally perform when handling customer contact, thereby reducing call times and improving the quality of service.

Redesigning our services and customer access is a significant and ambitious programme of work for both councils that will serve as a catalyst to drive wider organisational change. We do not underestimate the scale of this project. We have invested in the technology and project support to ensure delivery and have staff trained in the Business Process Re-engineering techniques so that we can continue to challenge our processes and look for further efficiencies. A review of our existing websites is an important next step in our transformation journey, including rewriting content to reflect the shared delivery of services.

6. **Taking advantage of new forms of local government finance (e.g. business rate retention)**

During the period covered by the MTFS, the new forms of local government finance will begin to become the key sources of income for councils. Both councils will therefore take the opportunity to grow our own funding through a strong, and growing, local economy alongside the skills, infrastructure and housing to sustain it.

OUR APPROACH TO ENGAGEMENT AND CONSULTATION

We already have a number of routes to our urban, rural, business and other communities. We have a variety of different mechanisms in place to engage with residents and other interested groups and we have in the past used focus groups and questionnaires, for example, on budget consultation with residents. Significant consultation work was undertaken as part of the development of our Forest Heath Strategic Plan produced in 2012, and single issue review of housing, for example, and St Edmundsbury's Vision 2031 (part of the council's Local Plan) which fed into the development of its Corporate Plan, published in 2012.

As a general approach, we will build on these existing communications channels, such as chambers of commerce, parish forums/conferences, youth groups, disability forum, business meetings and specific projects such as the rural coffee caravan which tours villages to give information and get feedback. We will establish an open relationship where feedback is ongoing through the development of our plans and services rather than in response to formal documents for comment.

Ward members are the front line in our communities and vital routes for engagement, communication and feedback. We recognise we need to improve the flow and quality of information to and from members for them to become active ambassadors for both councils' new ways of working and have been consulting them on ways to do this. Frontline News, a weekly online newsletter with updates from service areas and links to information, assists members in conversations with their communities at ward level.

We recognised that there is a place for large scale consultation on the future, type and scale of public services and service delivery in West Suffolk and in spring 2014 we will carry out a public survey. We will initially hold focus groups across a range of demographics and interests to discuss both councils' priorities and commercial agenda. We will use feedback from those groups to develop questions and provide real choices on the future approach to service delivery. Our experience has shown that we can use focus groups to explore in depth people's attitudes about issues, some of which may be controversial.

This approach is outlined in 'West Suffolk Works – a strategic direction for communications' which also sets out the need for setting communications objectives and evaluation.

SUMMARY OF OUR FINANCIAL POSITIONS

REVENUE STRATEGY AND BUDGET SUMMARY

The approach taken to financial management over the period of the Medium Term Financial Strategy (MTFS) seeks to achieve the following objectives:

- keeping council tax low and at an affordable level;
- deliver the necessary savings to continue to live within our means;
- continuously improve efficiency by transforming the ways of working;
- making prudent budget provisions for the replacement of key service delivery assets such as waste freighters, ICT systems;
- ensure that the financial strategy is not reliant on contributions from working balances; and
- maximising revenue from our assets.

Key budget assumptions within the MTFS

There are limitations on the degree to which both Councils can identify all of the potential changes within its medium term financial projections. It is important to remember that these financial models have been produced within a dynamic financial environment and that they will be subject to significant change over time. However the revenue position as currently forecast is summarised below in table 1 and detailed further in Appendix 1.

Table 1: Annual savings

	2015/16	2016/17	2017/18
	Annual saving *	**Annual saving ***	**Annual saving ***
Forest Heath DC	£1.1m	£0.6m	£0.2m
St Edmundsbury BC	£1.5m	£1.0m	£0.9m
Both Councils	**£2.6m**	**£1.6m**	**£1.1m**

- **Annual savings required to achieve a balanced budget**

Both council's medium term financial projections include the following key budget assumptions, detailed in table 2 below. Budget assumptions continue to be reviewed as more accurate information becomes available.

Table 2 : Key assumptions in the MTFS

Type of Expenditure	2014/15		2015/16		2016/17		2017/18	
	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds
General inflation	2%		2%		2%		2%	
Fees and charges	2%		2%		2%		2%	
Employee pay increase *	1%		2%		2%		2%	
Utilities	5%		5%		5%		5%	
Employer's pension contribution based on actuarial valuation reports	22.4%	21.7%	24.7%	23.7%	27%	25.7%	30%	27.7%
Vacancy savings	2.5%		2.5%		2.5%		2.5%	
Transport Fuel	5%		5%		5%		5%	
Return on Investments	1.9%	1.5%	1.75%	1.5%	2.15%	2.25%	2.5%	2.25%
Grant reduction as % of RSG (reducing balance)	49% reduction Forest Heath 48% reduction SEBC over two years				-24%	-24%	-28%	-28%

** no pay award will be made unless in accordance with national negotiations, but an allowance must be made for it in the budget, as information is not received in time for budget setting.*

General Fund balance

Each council is required to maintain adequate financial reserves to meet the needs of the authority. The reserves we hold can be classified as either working balances – known as the general fund balance, or as specific reserves which are earmarked for a particular purpose – known as earmarked reserves.

Both councils hold general fund balances as a contingency to cover the cost of unexpected expenditure or events during the year. Both council's policies regarding the level of general fund are as follows, to hold a balance of:

- £2m for Forest Heath District Council; and
- £3m for St Edmundsbury Borough Council

These amounts equate to approx. 25% of net expenditure at the 2014/15 budget level.

Earmarked Reserves levels

Both councils hold earmarked reserves, which are earmarked for a particular purpose and are set aside in order to meet known or predicted future expenditure in relation to that purpose. The planned use of working balances over the period covered by this strategy is shown in Appendix 3.

Based on existing contributions the levels of earmarked reserves at the end of 2013/14 are expected to be as follows:

- £4.5m for Forest Heath DC; and
- £10.5m for St Edmundsbury BC.

Both councils make prudent budget provisions for the replacement of key service delivery assets. Table 3 below summarises these annual provisions within the revenue budgets.

Table 3: Annual revenue provisions

	2015/16		**2016/17**		**2017/18**	
	Forest Heath	**St Eds**	**Forest Heath**	**St Eds**	**Forest Heath**	**St Eds**
Asset Management Plans	£370k	£1,400k	£390k	£1,400k	£410k	£1,400k
Waste freighters and plant replacements	£230k	£600k	£230k	£600k	£230k	£600k
ICT systems	£50k	£100k	£50k	£100k	£50k	£100k

Treasury management

Both Council's capital and revenue budget plans inform the development of their Treasury Management and Investment Strategies, which are agreed annually as part of its budget setting report. The Treasury Management Strategy details who the Council can invest with and the maximum amount that can be invested and can be found on the councils website (link provided at the end of the MTFS).

Risk management

In setting the revenue and capital budgets, both councils take account of the known key financial risks that may affect their plans. In addition, the impacts of varying key assumptions in the medium term financial strategy are modelled to assess the sensitivity of the indicative budget figures, as detailed at Appendix 5.

This informs decisions about the level of working balances needed to provide assurance as to the robustness of the budget estimates.

CAPITAL STRATEGY AND BUDGET SUMMARY

Summary position

The Capital Strategy sets out the Council's approach to the allocation of capital resources. Appendix 2 shows the 5 year planned capital expenditure for 2013/14 to 2017/18, together with information on the funding of that expenditure (i.e. grants and contributions, use of earmarked revenue reserves and usable capital receipts reserve).

The Capital Strategy is supported by the Council's Corporate Asset Management Plan which includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

During 2014/15, the capital programme will also be reviewed taking into account both the emerging priorities for West Suffolk detailed in our 2014-16 Strategic Plan, and the six key themes of the Council's response to the challenges and opportunities highlighted within this MTFS.

The Prudential Code for Capital Finance and matters relating to the affordability of the Capital Programme are detailed in Appendix 4.

Capital Receipts

An essential part of the funding arrangements for the capital programme is the disposal of surplus assets. The Council has an agreed programme of asset disposals, which has already been severely affected by the recession. Table 4 is a summary estimate of the likely level of income from asset disposals over the period 2014/15 to 2017/18.

Table 4: Estimated income from asset disposals 2014/15 to 2017/18

	2014/15		2015/16		2016/17		2017/18	
	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds
Estimated income from asset disposals	£0.10m	£0.10m	£0.10m	£0.18m	£0.10m	£0.10m	£0.10m	£0.10m

Capital Reserves

Following the transfer of the local authority housing stocks, both Councils have had extensive capital programmes covering the last 5-10 years. These programmes have predominately been funded from the Councils' housing stock transfer capital receipt or through the use of new capital receipts from the sale of other Council assets. Table 5 is a summary estimate of the likely level of capital reserve balance over the period 2014/15 to 2017/18.

Table 5: Estimated capital reserve balance 2014/15 to 2017/18

	2014/15		2015/16		2016/17		2017/18	
	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds	Forest Heath	St Eds
Estimated capital reserve balance	£7.67m	£8.62m	£5.69m	£7.75m	£5.49m	£7.06m	£5.28m	£6.37m

Capital Investment – Alternative sources of funding

Both councils have a long tradition of investing in their communities.

Depleting capital and revenue reserves and increased pressure on external funding pots mean that both Councils will have to consider funding options away from the traditional investment methods. Instead focus is now on the use of;

- making loans, securing the return of the Councils' funds;
- joint ventures, sharing the investment required; or
- borrowing, introducing new funds into the Council.

Investment opportunities will be subject to a business case and risk assessment to ensure that the decision to implement the project is sound and that the Council can afford the long terms implications of each project. With this in mind, each business case that comes forward will make reference to a target 10% internal rate of return in order to cover the potential cost of borrowing.

GLOSSARY OF TERMS

Actuarial valuation
An independent report of the financial position of the Pension Fund that is carried out by an actuary every three years. Reviews the Pension Fund assets and liabilities as at the date of the valuation and the results of which, including recommended employer's contribution rates, the Actuary reports to the Council.

Baseline funding level
The amount of a local authority’s start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top-ups will be calculated.

Budget Requirement
The Council’s revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates).

Capital expenditure
Spending on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. Can also be indirect expenditure in the form of grants to other persons or bodies.

Capital Programme
Councils plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
The proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

Capping
Power under which the Government may limit the maximum level of local authority spending or increases in that level year on year, which it considers excessive. It is a tool to restrain increases in council tax. Any major precepting authority in England wanting to raise council tax by more than 2% in 2014/15 must consult the public in a referendum, the government has said. Councils losing a referendum would have to revert to a lower increase in bills.

CIPFA
Chartered Institute of Public Finance and Accountancy. One of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection fund
A statutory account maintained by the council recording the amounts collected from council tax and Business Rates and from which it pays the precept to the major precepeting authorities.

Collection Fund surplus (or deficit)
If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authorities - Suffolk County Council and Suffolk Police Authority.

Contingency
Money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base
The Council Tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works what this equates to in terms of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992.

General Fund Balance
The main unallocated reserve of the Council, set aside to meet any unforeseen pressures.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the overall economy.

Gross expenditure
The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

Individual authority business rates baseline
Derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Local share of Business rates
This is the percentage share of locally collected business rates that will be retained by local government. This will be set at 50%. At the outset, the local share of the estimated business rates aggregate will be divided between billing authorities on the basis of their proportionate shares.

Net Expenditure
Gross expenditure less services income, but before deduction of government grant.

National Non Domestic Rates (NNDR)
Also known as 'business rates', Non-Domestic Rates are collected by billing authorities such as Forest Heath District Council and St Edmundsbury Borough Council and, up until 31 March 2013, paid into a central national pool, then redistributed to authorities according to resident population. From 2013-14 local authorities will retain 50% of the value of any increase in business rates. The aim is to provide an incentive to help businesses set up and grow.

New Homes Bonus
Under this scheme Councils receive a new homes bonus (NHB) per property for the first six years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an unringfenced grant.

Precept
The precepting authority's council tax, which billing authorities collects on behalf of the major preceptor

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council's capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure
The day-to-day running expenses on services provided by Council.

Revenue Support Grant (RSG)
All authorities will receive Revenue Support Grant from central government in addition to its baseline funding level under the new system from 1 April 2013.

Section 151 officer (or Chief Financial Officer)
Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in both West Suffolk councils case this is the post of Head of Resources and Performance.

Specific Grants
As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else. e.g. Housing Benefits.

Spending Review
The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department.

Suffolk Business Rate Pool
All district/borough councils in Suffolk, along with Suffolk County Council have created the Suffolk Business Rates Pool. The pooling of business rates across Suffolk will:

- through its governance arrangement ensure no individual council is financially any worse off for being in the Suffolk pool;
- maximise the proportion of business rates that are retained in Suffolk;
- benefit the wider communities within the county led by the Suffolk Leaders' collective vision for a 'Better Suffolk';
- provide incentives for councils to work together to improve outcomes for Suffolk.

Tariffs and top-ups
Calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups are fixed at the start of the scheme and index linked to RPI in future years. Forest Heath and St Edmundsbury BC are 'top-up' authorities.

Treasury Management
Managing the Council's cash flows, borrowing and investments to support both councils finances. Details are set out in the Treasury Management Strategy which is approved by both Cabinets and Full Councils in February.

Forest Heath District Council
District Offices
College Heath Road
Mildenhall IP28 7EY
Tel: 01638 719000
Email: info@forest-heath.gov.uk

St Edmundsbury Borough Council
West Suffolk House
Western Way
Bury St Edmunds IP33 3YU
Tel: 01284 763233
email: stedmundsbury@stedsbc.gov.uk

Chief Executive: Ian Gallin
Tel: 01284 757001 / 01638 719632 email: ian.gallin@westsuffolk.gov.uk