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St Edmundsbury
BOROUGH COUNCIL

TO: **ALL CABINET MEMBERS**

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Our reference CS
Your reference N/A
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3 February 2016

Dear Councillor

ST EDMUNDSBURY CABINET - TUESDAY 9 FEBRUARY 2016

I am now able to enclose, for consideration at next Tuesday's meeting of the St Edmundsbury Cabinet, the following report that was unavailable when the agenda was printed. In addition, I attach amended papers relating to the Budget and Council Tax Setting: 2016/17 and MTFS report.

Yours sincerely

Claire Skoyles
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Cabinet

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Budget and Council Tax Setting: 2016/17 and Medium Term Financial Strategy**	
Report No:	**CAB/SE/16/005 (AMENDED)**	
Report to and date/s:	**Cabinet**	9 February 2016
	Council	23 February 2016

Since their initial publication on Tuesday 2 February 2016, **the attached Cabinet report and the following Attachments have been amended:**

Attachment A – Revenue Budget Summary
Attachment B – Summary of major budget changes
Attachment D – Medium Term Financial Strategy (MTFS) 2016-20
Attachment D, **Appendix 1** - 5 Year Revenue Budget (MTFS)
Attachment D, **Appendix 3** – Earmarked Revenue Reserves

The changes are easily identifiable and are highlighted in yellow.

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Cabinet

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Budget and Council Tax Setting: 2016/17 and Medium Term Financial Strategy**	
Report No:	**CAB/SE/16/005 (AMENDED)**	
Report to and date/s:	**Cabinet**	9 February 2016
	Council	23 February 2016
Portfolio holder:	Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Joanne Howlett Acting Head of Resources and Performance Tel: 01284 757264 Email: joanne.howlett@westsuffolk.gov.uk	
Purpose of report:	This report sets out details of the Council's proposed revenue and capital budgets for 2016/2017 for Cabinet's consideration and recommendation to full Council.	
Recommendations:	**It is <u>RECOMMENDED</u> that, subject to the approval of full Council:** **(1) the revenue and capital budget for 2016/2017 attached at Attachment A and as detailed in Attachment D, Appendices 1-5 and Attachment E of Report No: CAB/SE/16/005, as amended, be approved;** **(2) having taken into account the conclusions of the Head of Resources and Performance's report on the adequacy of reserves and the robustness of budget estimates (Attachment C) and the Medium Term Financial Strategy (MTFS) (Attachment D, as amended), particularly**	

	the Scenario Planning and Sensitivity Analysis (Attachment D, Appendix 5) and all other information contained in this report, Cabinet establish the level of council tax for 2016/2017; **(3) the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources and Performance, be authorised to transfer any surplus from the 2015/2016 revenue budget to the Invest to Save Reserve as detailed in paragraph 1.9.4, and to vire funds between existing Earmarked Reserves (as set out at Attachment D, Appendix 3, as amended) as deemed appropriate throughout the year;** **(4) the revised Minimum Revenue Provision (MRP) policy, as set out in section 1.8 and Attachment D Appendix 4, be adopted; and** **(5) where the Council has usable capital receipts that are not needed for other purposes, delegated authority be given for the Section 151 Officer to apply, where prudent to do so, some or all of it to meet capital expenditure incurred in the current year or previous years under paragraph 23 of the 2003 Regulations to reduce or eliminate any MRP that might need to be set aside, as detailed in Attachment D, Appendix 4.**
Key Decision:	*Is this a Key Decision and, if so, under which definition?* Yes, it is a Key Decision - ☐ No, it is not a Key Decision - ☒ As it is a decision of full Council
Consultation:	• As detailed in the body of this report
Alternative option(s):	• The Council is legally required to set a balanced budget.
Implications:	
*Are there any **financial** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report
*Are there any **staffing** implications? If yes, please give details*	Yes ☒ No ☐ • Staffing implications are considered as part of any proposed structure changes.
*Are there any **ICT** implications? If yes, please give details*	Yes ☐ No ☒ •

*Are there any **legal and/or policy** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report
*Are there any **equality** implications? If yes, please give details*	Yes ☒ No ☐ • To be considered as part of implementation of service changes
Risk/opportunity assessment:	A risk assessment is included at Attachment C as part of the report by the Head of Resources and Performance (Chief Finance Officer). The Head of Resources and Performance's conclusion is that overall the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2016/2017 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2016/2017 budget.
Ward(s) affected:	All Wards
Background papers: *(all background papers are to be published on the website and a link included)*	Report No: **PAS/SE/15/026** Delivering a Sustainable Budget 2016/17 – 23 September 2015 Report No: **PAS/SE/15/035** Delivering a Sustainable Budget 2016/17 – 25 November 2015 Report No: **PAS/SE/16/005** Budget Monitoring 1 April 2015 – 31 December 2015 -28 January 2016 **West Suffolk Medium Term Financial Strategy** Included as Attachment D
Documents attached:	**Attachment A (AMENDED)** – Revenue Budget Summary **Attachment B (AMENDED)** – Summary of major budget changes **Attachment C** – Report by the Head of Resources and Performance **Attachment D (AMENDED)** – Medium Term Financial Strategy (MTFS) 2016-20 **Appendix 1 (AMENDED)** - 5 Year Revenue Budget (MTFS) **Appendix 2** – 5 Year Capital Budget **Appendix 3 (AMENDED)** – Earmarked Revenue Reserves **Appendix 4** – Prudential Code for Capital Finance **Appendix 5** – Scenario Planning and Sensitivity Analysis **Attachment E** – Strategic Priorities and Medium Term Financial Strategy (MTFS) Reserve

1. Key issues and reasons for recommendations

1.1 Local government funding

1.1.1 The financial landscape for central government funding continues to remain one of uncertainty. The December Autumn Statement outlined further reductions in the Local Government Department spending, with steeper reductions in Revenue Support Grant and changes to Council Tax Freeze Grant proposed.

1.2 Local Government Finance Settlement 2016/2017

1.2.1 The Local Government Finance Settlement for 2016/17 was announced on 17 December 2015. In previous years the settlement figures only covered one year, with an indicative figure for the following year. In the provisional December settlement, the Secretary of State for Communities and Local Government proposed to offer a guaranteed four year budget settlement to cover the period up to 2019/20, to those councils which could demonstrate ongoing efficiency savings for 2016 to 2020. At this stage it is uncertain as to what the criteria for these savings and efficiencies will be.

1.2.2 The Council's total formula grant for 2016/17 (including Revenue Support Grant, Baseline Funding from retained business rates, Local Services Support Grant and prior years Council Tax Freeze grant) is £3.447m.

1.2.3 The Council has seen a 67% cumulative cut in revenue support grant funding over the three years from 2013/2014 to 2016/17. Further cuts to the Revenue Support Grant element (including Council Tax Freeze Grant) in subsequent years have been outlined in the December settlement, and it is expected that there will be no Revenue Support Grant available to the borough by 2019/20.

1.3 Council Tax freeze and referendum requirements 2016/2017

1.3.1 In previous years the Government awarded a Council Tax Freeze Grant to those councils that agreed to freeze their council tax levels, taking effect from 2011/12. This incentive has not been included in the settlement for 2016/17 onwards, and there is an assumption in the Local Government Finance Settlement that councils will raise their council tax levels in line with the referendum limits (2% or £5 for councils in the lower council tax quartile).

1.3.2 The prior years' Council Tax Freeze Grant has been factored into the 2016/17 Revenue Support Grant figures, and reduced in line with the overall savings requirements. As such it is also anticipated that the prior years' freeze grant will also not be available to the borough by 2019/20, in line with the main Revenue Support Grant.

1.3.3 The Government has maintained the 2% threshold for council tax increases for 2016/17, with a £5 threshold for lower cost councils, although St Edmundsbury Borough Council would not fall into this latter category. Any council tax rise above this would trigger a local referendum, thus giving the local electorate the opportunity to approve or veto the increase.

1.3.4 The current budget figures assume a 1.99% increase in council tax for 2016/17, which equates to an increase of £3.49 per year for a Band D taxpayer.

1.4 **Business rates retail relief 2016/2017**

1.4.1 The Government has continued, as announced in the Autumn Statement 2014, to offer support for business rate bills in 2016/17 by offering small business rate relief for an extra year.

1.5 **Setting the budget – 2016/2017**

1.5.1 The Council continues 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, difficult financial decisions have to be made. The Council has an excellent track record of achieving substantial year-on-year budget savings and generating new income.

1.5.2 The report 'Delivering a Sustainable Budget 2016/17', which was presented to the Performance and Audit Scrutiny Committee on 23 September 2015, identified several significant additional budget pressures that had arisen since the 2015/16 budget process which increased the original budget gap from £1.443 million to £1.903 million. These pressures were as follows:

1.5.3

St Edmundsbury Borough Council	2016/17 £000s	2016/17 £000s
Original Budget Gap from 2015/16 budget process		1,443
Reduction in organic waste recycling credits and increased tipping charges	336	
Increased Blue Bin tipping charges following changes in worldwide commodity prices	39	
Reduced Building Control income arising from loss of market share	85	
Additional Budget Pressure		460
Revised Budget Gap		**1,903**

1.5.4 The scale of financial changes that need to be made to ensure that St Edmundsbury's shared priorities can be delivered in 2016/17 is significant, especially as the projected £1.9 million budget gap for 2016/17 is on top of the savings delivered locally by the Borough over the years and the £4 million annual shared service savings already delivered across West Suffolk with Forest Heath District Council.

1.5.5 As a result, a considerable amount of work took place identifying potential savings and income generation ideas in order to secure a balanced budget for 2016/17 and to prepare for the medium term up to 2019/20.

1.5.6 In previous years, St Edmundsbury has addressed the need for financial savings by sharing the burden across all services. As with the 2015/16 budget process, rather than allocating a proportion of the £1.9 million savings to all areas of the Council's business, the approach has been that the Council's resources for 2016/17 should be allocated according to its strategic priorities. In practice, this will mean prioritising the projects, actions and themes outlined in the West Suffolk Strategic Plan, as well as statutory functions.

1.5.7 The process of allocating resources according to priorities and essential services has helped to identify areas of the Council's work which could either be scaled back or where further opportunities for the generation of income could be pursued. The process then focused on non-priority areas, and challenged whether the Council should continue with the activities at all or in their current form, in order to ensure they provided value for money to council taxpayers.

1.5.8 A significant number of the proposals identified are relatively straightforward to implement with minimal impact on service delivery as these items fall mainly in the categories of contract, supplies and service efficiencies, further shared service savings and income generation opportunities from making better use of council assets. However, other proposals require more detailed analysis in order to develop options and to provide clarity as to the potential savings/income.

1.5.9 The lists of proposals were presented to members of the Performance and Audit Scrutiny Committee in September 2015 (Report No: PAS/SE/15/026, 'Delivering a Sustainable Budget 2016-17') with their recommended saving proposals through to Cabinet and full Council on 15 December 2015 (Report No: COU/SE/15/036). These savings proposals are included within the proposed budget for 2016/17 as contained at Attachment A, and have been summarised in Attachment B for ease of reference.

1.5.10 The Performance and Audit Scrutiny Committee has a key role in the scrutiny of the budget process and proposals for achieving a balanced budget. At the meeting on 25 November 2015, the Committee received Report No: PAS/SE/15/035, which detailed the remaining saving/income proposals required in order for a balanced budget to be achieved.

1.5.11 Attachment A is the revenue budget summary, which provides an overview of the proposed net service expenditure, (net revenue position after income, expenditure and recharges) for 2016/17. The total proposed net revenue expenditure in 2016/17 is £12.688 million.

1.6 **Capital programme**

1.6.1 The capital expenditure of the Council has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year.

1.6.2 It is estimated that £14.596 million will be spent on capital programme schemes during 2016/17 which are to be funded by a combination of grants and contributions (£3.233 million), earmarked revenue reserves (£4.030 million) and the usable capital receipts reserve (£7.333 million).

1.6.3 Looking ahead, the total value of the capital programme over the next four years is approximately £19.923 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2016/17 and future years, together with information on the funding of that expenditure (that is, grants and contributions, use of earmarked revenue reserves and useable capital receipts reserve) and is summarised in Table 1 below.

1.6.4 **Table 1: Planned capital expenditure over four years to 2019/20**

	2016/17 millions	**2017/18 millions**	**2018/19 millions**	**2019/20 millions**	**Total millions**
Gross capital expenditure	**£14.596**	**£2.041**	**£1.596**	**£1.690**	**£19.923**
Funded by:					
Grants and contributions	£3.233	£0.350	£0.350	£0.350	£4.283
Earmarked revenue reserves	£4.030	£1.241	£0.796	£0.890	£6.957
Capital receipts reserve	£7.333	£0.450	£0.450	£0.450	£8.683
Total	**£14.596**	**£2.041**	**£1.596**	**£1.690**	**£19.923**

1.7 **Disposal of assets**

1.7.1 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 affected by the national economic situation. Table 2 below is a summary estimate of the likely level of income from asset disposals over the period 2016/17 to 2019/20.

1.7.2 **Table 2: Estimated income from asset disposals 2016/17 to 2019/20**

	2016/17	**2017/18**	**2018/19**	**2019/20**
Estimated income from asset disposals –Council share of Right to Buy receipts	£500,000	£500,000	£500,000	£500,000

1.7.3 The above capital programme and asset disposals programme will, in the short to medium term, reduce the Borough Council's useable capital receipts reserves from £13.58 million to £6.90 million. However, this approach still does not address the funding of longer term requirements for major capital repairs to key Borough Council assets including, for example, the £11 million for major repairs and refurbishment of the Borough Council's two leisure centres. Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the options and investment appraisals for these projects.

1.7.4 The Council has a number of projects on the horizon that have the potential to require significant capital investment. Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the options and investment appraisals for these projects and will be subject to full Council decisions.

1.7.5 The calculation of interest income used in the Medium Term Financial Strategy (MTFS) is based on the use of existing and anticipated capital expenditure and receipts. Changes in the level and timing of these cashflows have a direct impact on investment returns and revenue funding requirements. However, the Interest Equalisation Reserve does allow for some change in the budgeted levels of income from interest to be accommodated. The Prudential Code for Capital Finance and matters relating to the affordability of the Capital Programme are addressed in Attachment D, Appendix 4. The revenue cost of the capital programme is achievable without significant council tax rises provided the savings indicated in the MTFS and set out in Attachment D, Appendix 1 are implemented.

1.8 **Minimum Revenue Provision (MRP)**

1.8.1 The Treasury Management and Annual Investment Strategy included elsewhere on this agenda (Report No: CAB/SE/16/004) and the Prudential Indicators (Attachment D Appendix 4), provide a framework within which borrowing limits for the Council are established and will confirm our MRP policy for 2016/17.

1.8.2 It is proposed that the following sections of the MRP policy for 2016/17 are updated. The justification for the proposed changes are included below.

1. *Loans*

Taking into account only the underlying statutory duty to determine a prudent MRP, it would be reasonable to conclude that a loan made to another party with security that guarantees the principal is not at risk, would not require a MRP. This is because there is no prospect that the authority would make any loss and therefore there is no need for resourcing.

The Council's justification for taking this approach is as follows:

> The Council may make loans to other parties to fund their capital expenditure. Government guidance is that MRP should be charged on the outstanding amount of any loan, based on amortising the loan principal over the estimated life of the assets in relation to which the

other parties' expenditure is incurred. This is because lending to other parties has the same impact on the underlying need for an authority to borrow as expenditure on acquiring property. However, in circumstances where a loan is secured and there is no risk of default, the Council will not charge MRP because the principal sum of such a loan will have no consequences for the Council's revenue expenditure and it would be over-prudent to provide for the loan.

Where the loan is unsecured the Council will consider the requirement for an MRP on a case by case basis.

2. *Capital Investment with a Defined Life*

It is proposed to have a number of different bases for calculating MRP within our policy, provided that the overall charge is prudent and none of the bases contradict each other. A common approach, which we are looking to adopt, is to focus a policy on making a charge linked to equal instalments or on an annuity basis, where a 4% reducing balance amount would under-recover the expenditure over its useful life.

3. *MRP, Capital Receipts and Borrowing*

The Department of Communities and Local Government (DCLG) Guidance is clear throughout its contents that it only applies to expenditure that has not been financed from other sources, primarily capital receipts and grant funding. Where an authority has a balance of usable capital receipts, it can at any time apply some or all of it to meet capital expenditure under paragraph 23 of the 2003 Regulations (see Attachment D Appendix 4 Prudential indicators section 1.1 for full title). The capital expenditure does not need to have been incurred in the current financial year.

Authorities therefore have the ability to revise their MRP policies at any time that alternative resources might be available. Capital receipts can be set aside to either:

- generally reduce the Capital Financing Requirement (CFR), reducing the annual charge resulting from applying the 4% formula under Option 2 (or removing it altogether if the CFR is reduced to zero);
- finance the outstanding balance on an Option 3 scheme.

Where an authority has taken out external borrowing, there is no requirement to pay off any loans in excess of the CFR. The capital financing system operates with a concept of debt, the underlying need to borrow. MRP is designed to reduce this underlying need. If the underlying need is reduced, then conditions may be conducive to reducing actual borrowings. However, the statutory arrangements leave it to authorities to manage this position, taking into account their overall cash management position. For instance, there would be no suggestion that an authority with a zero CFR should repay an outstanding Public Works Loan Board (PWLB) loan, as the repayment would incur a penalty charge.

1.8.3 It is proposed that the following is added to the Borough Council's MRP policy:

The DCLG Guidance only applies to expenditure that has not been financed from other sources, primarily capital receipts and grant funding. Where the Council has usable capital receipts that are not needed for other purposes, it can at the discretion of the section151 officer to apply where prudent to do so some or all of it to meet capital expenditure incurred in the current year or previous years under paragraph 23 of the 2003 Regulations to reduce or eliminate any MRP that might need to be set aside.

1.9 **Revenue reserves and balances**

General Fund

1.9.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2016/17. However, many of the assumptions supporting the budget projections for 2016/17 (and future years) are subject to significant uncertainty. This includes assumptions regarding:

(a) sustainability of income stream estimates (including commercial property rental income and planning income);
(b) impact of Business Rates Retention scheme and Suffolk pooling arrangements; and
(c) pay inflation and employer's pension liabilities.

1.9.2 The Borough Council holds General Fund balances as a contingency to cover the cost of unexpected expenditure during the year. The Borough Council agreed as part of the 2014/15 budget process and development of the MTFS to hold a General Fund balance at the level of £3 million, which is around 23% of the 2016/17 net expenditure. As in previous years, the Borough Council can use balances above this minimum to support revenue expenditure and to reduce the level of council tax. As part of the 2016/17 budget process, it is proposed to utilise £224,000 of the General Fund balance in order to maintain the balance at the policy level.

1.9.3 The recommended level of general fund balance has been established by taking into account the following:

(a) allowance for a working balance to cushion the impact of any unexpected events or emergencies;
(b) the new risks placed at a local level under the new business rates retention scheme, such as appeals;
(c) the addition of greater income targets linked to being more commercial and the selling of councils' services; and
(d) other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

1.9.4 The budget monitoring report to the Performance and Audit Scrutiny Committee on 28 January 2016 (Report No: PAS/SE/16/005 refers) included an estimate of the year end budget underspend of £60,500. It is proposed to transfer the final year-end surplus in its entirety to the Council's Invest to Save reserve in order to fund future efficiencies and initiatives which will help to mitigate any further risks or budget pressures going forward.

Earmarked reserves

1.9.5 At the end of the 2016/17 financial year the Council will have an estimated £12.134 million in earmarked reserves. The current level of earmarked reserves and contributions during 2016/17 has been reviewed and where appropriate annual contributions have been adjusted. Attachment D, Appendix 3, provides details of the proposed contributions to, and projected expenditure from, earmarked reserves during 2016/17.

Strategic Priorities and MTFS Reserve

1.9.6 This reserve will act as a one-off fund to provide the financial capacity, either through direct investment (revenue and/or capital) or through servicing external borrowing, for the West Suffolk authorities to drive forward the delivery of a sustainable Medium Term Financial Strategy (MTFS) and the West Suffolk Strategic Plan priorities.

1.9.7 The Council received a total New Homes Bonus (NHB) grant of £0.268 million in 2011/12, £0.559 million in 2012/13, £0.757 million in 2013/14, £0.886 million in 2014/15, £1.219m in 2015/16 and expects to receive £1.754 million in 2016/17. These NHB allocations have all been put into this Strategic Priorities and MTFS reserve.

1.9.8 No assumptions have been made with regard to NHB allocations beyond 2016/17 as there is a likelihood that future payments of the NHB will be funded at a national level by cutting our funding elsewhere, such as top-slicing revenue support grant or by retaining a proportion of business rate monies that otherwise would be retained locally. Consultation on reforms to the New Homes Bonus, including means of 'sharpening the incentive to reward communities' for additional homes and reducing the length of payments from 6 years to 4, will commence in 2016.

1.9.9 The 2016/17 budget and MTFS includes a number of proposed draws on this reserve, some of which are still to be quantified and will require further reports to full Council. Attachment E summarises the proposed draws on this reserve as part of the 2016/17 budget.

Adequacy of reserves

1.9.10 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Head of Resources and Performance) to report to Council, as part of the tax setting report, her view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the council tax at its meeting on 23 February 2016. The full statement is set out in Attachment C.

1.9.11 In summary, the Section 151 Officer's overall assessment is that the estimates are robust (taking into account known risks and mitigating strategies) and reserves are adequate for the 2016/17 budget plans.

1.10 **Medium Term Financial Strategy (MTFS)**

1.10.1 It should be noted that by 2019/20 the projected budget gap amounts to £1.545 million for St Edmundsbury (that is, £1.127 million 2017/18, £0.392 million 2018/19, and £0.026 million 2019/20). Should any of the assumptions within the MTFS change significantly, the gap would also change.

1.10.2 The six themes within our agreed MTFS (as detailed in Attachment D) relate to areas of the West Suffolk councils' business which will support sustainability in a more financially constrained environment.

1.10.3 The themes are:

- aligning resources to the councils' strategic plan and essential services;
- continuation of the shared services agenda and transformation of service delivery;
- behaving more commercially;
- encouraging more use of digital forms of customer access;
- taking advantage of new forms of local government finance (for example, business rate retention); and
- considering new funding models (for example, becoming an investing authority).

2. Legal implications

2.1 The Local Government Act 2003 imposed duties on local authorities in relation to financial management which covers the following areas:

(a) A power for the Secretary of State to determine a minimum reserve level for local authorities by regulations. The Government has indicated that their preference is to keep this power in reserve.

(b) Section 25 of the Act places a requirement on the S151 Officer to report on the adequacy of reserves and robustness of budget estimates as part of the authority's annual budget setting process. The Council is required to take these views into account when setting the Council Tax at its meeting on 23 February 2016. This is included as Attachment C of the report.

(c) Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budgets and take such action as considered necessary in the case of overspends and shortfalls of income.

(d) Section 30 of the Act relates to the provisions preventing local authorities entering into agreements following a Section 114 Report which a S151 Officer must produce when it appears that expenditure of the authority in a financial year is likely to exceed the resources available to meet the expenditure. No such report has been produced for St Edmundsbury this year.

St Edmundsbury Borough Council - Revenue Budget Summary

ATTACHMENT A
AMENDED

Service	Ref.No.	2014/15 Actual	2015/16 Budget	2016/17 Budget
Net Service Expenditure by Service Area				
Services				
Head of Resources & Performance	1	370,163	1,089,592	486,087
Head of HR and Democratic Services	2	1,308,629	1,210,213	1,181,805
Head of Families and Communities	3	574,216	1,012,218	803,594
Head of Planning and Growth	4	2,219,130	1,337,602	1,833,702
Head of Operations	5	6,561,821	6,996,320	7,379,725
Head of Housing	6	1,838,397	1,111,062	1,003,747
Total Net Expenditure excluding Parishes	7	**12,872,356**	**12,757,007**	**12,688,660**
Budgeted use of General Fund Balance	8	**(460,000)**	**0**	**(224,000)**
Year end actual Transfer to General Fund Balance	9	**(354,684)**	**0**	**0**
BUDGET REQUIREMENT EXCLUDING PARISHES	10	**12,057,672**	**12,757,007**	**12,464,660**
GRANTS AND COUNCIL TAX REQUIREMENT				
Collection Fund Deficit / (Surplus) - Council Tax	11	82,782	(167,300)	(187,000)
Collection Fund Deficit / (Surplus) - Business Rates	12	463,301	239,942	331,044
Government Suport				
Formula Grant - Revenue Suport Grant	13	(2,381,349)	(1,594,413)	(1,140,743)
Formula Grant - Business Rate Retention Scheme	14	(2,155,499)	(2,196,687)	(2,305,934)
Business Rates Retention Scheme - Local Share of Growth/S31 Grants	15	(342,285)	(612,884)	(542,326)
Business Rates Retention Scheme - Share of Suffolk Pooling Benefit	16	(228,407)	(188,000)	(179,424)
Business Rates Retention Scheme - Renewable Energy	17	(154,768)	(432,058)	(262,138)
Local Services Support Grant **(see Note 1)**	18	(49,252)	(49,062)	0
Efficiency Support for Services in Sparse Areas	19	(21,443)	(28,901)	(37,292)
Council Tax Freeze Grant - 2011/12 to 2015/16 **(see Note 1)**	20	(299,744)	(365,077)	0
New Homes Bonus	21	(885,975)	(1,219,085)	(1,754,021)
Totals	**22**	**6,085,033**	**6,143,482**	**6,386,826**
Amount met from Collection Fund				
St Edmundsbury Borough Council	23	6,085,033	6,143,482	6,386,826
Parish Councils	24	1,586,833	1,658,461	1,658,461
Total met from Collection Fund	**25**	**7,671,866**	**7,801,943**	**8,045,287**
Working Balances				
Opening General Fund Balance	26	3,579,055	3,224,371	3,224,371
Transfers to General Fund	27	(354,684)	0	(224,000)
General Fund Balance carried forward:	**28**	**3,224,371**	**3,224,371**	**3,000,371**

Note 1
With effect from the 2016/17 Finance Settlement, these grants have now been included within Revenue Support Grant.

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St Edmundsbury Borough Council **Attachment B AMENDED**

Summary of Major Budget Changes

The following table details the major changes from the current budget process between the original 2016/17 forecast budget and the final proposed 2016/17 budget.

Description	**2016/17 £'000 Pressure/ (Saving)**
Budget gap, as per 2015/16 Budget setting process	**1,443**
Additional Budget Pressures identified April - September 2015	
Recycling tipping charges (blue bins) following changes in worldwide commodity prices	39
Loss of building control income, recognising loss in market share	85
Reduction in Organic Waste (Brown Bin) Recycling Credits from Suffolk County Council	336
Revised Budget Gap, as reported to Performance and Audit Scrutiny Committee 23 September 2015	**1,903**
Budget Pressures identified during the 2016/17 process:	
Additional pressure from finance settlement	368
Changes identified from review of Planning Income budgets	258
Reduction in Interest receipts due to revised assumptions and capital programme timings	70
Rephasing of the leisure saving targets	62
Reduction in Housing Benefit Administration Subsidy	35
Project Management - review of resources	25
Increase in NNDR appeals provision	333
Budget saving proposals	
Income Generation	
ARP Bailiffs and trading company services	(36)
Asset lease for Nowton Park (Cottage)	(14)
Catering and events at West Stow	(30)
Vehicle Workshop	(45)
Waste Services	(98)
Income generation and reduction in bed and breakfast costs linked to investment	(105)
Income generation/efficiencies - Apex	(30)
Mitigate Building Control overspend/reduction income through increasing market share, changes in fee levels	(85)
Rent a Roof	(26)
Charging regime for Brown Bin Collections in order to mitigate reduction in recycling credits from Suffolk County Council	(336)
Changes in Budget Assumptions	
Budget assumption change - 1% for pay inflation	(70)
Budget assumption change for car parking to reflect current volumes	(100)
Council Tax increase - 1.99%	(124)
Efficiencies and Other Savings	
Business Process Re-Engineering (BPR) - release of staffing capacity following efficiencies created through process redesign	(163)
Contract efficiencies including ICT supplies and services	(98)

St Edmundsbury Borough Council　　Attachment B AMENDED

Description	2016/17 £'000 Pressure/ (Saving)
Contract efficiencies through Facilities Management joint venture - part year savings	(32)
Further staffing changes including service changes and vacancy management	(147)
Reduction in Leisure Trust Management fee - subject to negotiations with Abbeycroft Leisure	(25)
Remaining community centre transfers as identified in previous Cabinet report B12	(50)
Increased occupancy and share running costs of Haverhill Office	(20)
Supplies and services savings, including around5% reduction on all supplies and services budgets	(209)
Contract efficiencies insurance contract	(113)
Bus station ownership/different delivery models	(100)
Savings on utilities	(63)
Vehicles savings including fuel	(116)
Collection Fund - Improved Recovery	(187)
NNDR changes as a result of the impact of RPI change compensated for by a surplus on the collection fund and additional income from the Suffolk Pool	(57)
Funding for Project Posts from earmarked reserves	(122)
Fund increased NNDR appeals provision from Business Rate Reserve	(333)
Other minor budget changes	(20)
Review of Reserves and Balances - post Finance Settlement	
Contribution to Invest to Save Reserve	124
Reduction of General Fund balance to policy level of £3M	(224)
Final Budget Gap	**0**

Forest Heath & St Edmundsbury councils

West Suffolk
working together

West Suffolk Medium Term Financial Strategy (MTFS) 2016-20

CONTENTS

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FOREWORD FROM THE PORTFOLIO HOLDERS OF THE COUNCILS

We are delighted to introduce the West Suffolk Medium Term Financial Strategy (MTFS) for 2016-20 – the second MTFS that has been produced jointly by Forest Heath District Council and St Edmundsbury Borough Council (working together as 'West Suffolk'). The two councils, while remaining separate bodies, continue to collaborate across the full range of our services and programmes of activity. This reduces costs for local residents and also simplifies public sector structures in the west of Suffolk.

Working more efficiently, through shared services, moving to digital forms of communication, behaving more commercially and a range of other initiatives, will continue to be at the heart of West Suffolk's approach over the next four years. But this will not be enough to meet the financial challenges we are facing as a result of changes in the economy and the way in which local government is financed. As we explain in more detail in this document, 2016-20 will see fundamental changes to the local government finance system. These will require councils to be even more reliant on generating growth in our local areas, as opposed to receiving support from central government. We welcome the opportunity to take control of our own destiny in this way. And we will also be working with Government and other councils to ensure that the necessary checks and balances remain in place so that we can continue to support local families and communities.

Our strategy for managing the councils' finances in 2016-20 will continue to be based on the six principles we adopted in 2014-16 and which are set out in this document.

Our aim in all of this is to continue to support communities to create the best possible future for people in West Suffolk – the vision we have set out in our West Suffolk Strategic Plan for 2016-20. Working towards this vision, and achieving the priorities and actions that support it, will need to be done in partnership with a wide range of other organisations, communities, families and individuals. The next four years will therefore be characterised by ongoing collaboration; more joining-up of our services around individuals; and in some cases, the devolution of powers to a more local level. All of these new ways of working will require new funding arrangements or structures, but we are confident that we can build on our strong track record of sound financial management in the past to meet the new, and even more demanding challenges of the future.

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

Councillor Ian Houlder
Portfolio Holder for Resources
and Performance
St Edmundsbury Borough 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 four years. It considers how the councils can provide these resources within the anticipated financial context.

Like all local authorities, Forest Heath and St Edmundsbury's MTFS is influenced by national government policy, funding and spending announcements. The government's spending plans for 2016-20 have now been announced. Highlights include:

- The main grant to local government will be phased out by 2019/20. For 2016/17 Revenue Support Grant has been reduced by 49% for St Edmundsbury Borough Council and 31% for Forest Heath District Council compared to 2015/16. Council tax and business rates are forecast to grow in cash terms based on the Office for Budget Responsibility's forecast for local authority self-financed expenditure. Local government spending is forecast to be higher in cash terms by 2019/20 than in 2015.
- Consultation will be undertaken in 2016 on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament.
- The doubling of small business rate relief will be extended for 12 months to April 2017.
- The government will allow local authorities to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects.
- The government will deliver its commitment to a £12 billion Local Growth Fund between 2015/16 and 2020/21.
- Consultation took place in 2016 on reforms to the New Homes Bonus, including means of 'sharpening the incentive to reward communities' for additional homes and reducing the length of payments from 6 years to 4 years.
- There will be no Council Tax Freeze Grant for 2016/17, with prior years remaining untouched but rolled up into RSG, as the Government are expecting councils to increase their council tax by the maximum allowed each year.
- Introduction of the National Living Wage, to reach 60% of average salaries by 2020.

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 slowed a little in early 2015 but domestic demand growth remained relatively strong, helped by lower oil prices. Net exports continued to subtract from UK growth, reflecting sluggish and falling growth in early 2015 in both the US and the Eurozone.

Britain's economy was expected, according to the government's independent forecasters, the Office for Budget Responsibility (OBR) to grow (GDP) around 2.4% in 2015 and in November they revised growth up a little for 2016 and 2017, reflecting both higher population growth (driven by higher net migration) and the Government's decision to slow the pace of fiscal tightening. Consumer spending and business investment will be the main drivers of UK growth in these years. Risks to growth are weighted somewhat to the downside in the short term due to international risks, including uncertainties relating to Greece and the recent turbulence in the Chinese stock market. But there are also upside possibilities in the medium term if the global environment improves and real wage and productivity growth rates accelerate in the UK.

The UK's inflation rate turned positive in July 2015, with the Consumer Prices Index measure rising to 0.1% from June's 0%. However, this returned to a negative figure for September/October and back again to a positive position of 0.2% in December. Inflation seems likely to rise during 2016, being forecast at 0.8% by the end of the year and returning slowly to the 2% target by 2020. 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 indications are that they may start to raise interest rates gradually around quarter two in 2016.

Government borrowing and spending

The Government's intention to reduce the UK's current budget deficit and level of debt, through public spending control, continues to be well documented, through its recent Spending Review and Budget announcements.

The July 2015 Budget confirmed plans for significant further fiscal tightening to eliminate the budget deficit before the end of this decade, but with a somewhat slower and smoother profile of public spending cuts and around £7 billion per annum of net tax rises to be phased in by 2020. The impact of £12 billion of welfare cuts is likely to be partially offset for some lower earners by the new National Living Wage.

The Government has proposed two new fiscal targets in this Budget: to achieve a surplus on public sector net borrowing in 2019/20 (and then every year in 'normal times') and for public sector net debt to fall as a share of GDP every year up to 2019/20. The OBR's central forecast is consistent with meeting these targets.

Changes to local government financing

Over the period of the previous Medium Term Financial Strategy (2014-16), a number of new local government financing mechanisms were embedded in the Councils' overall funding framework. For example:

- a share of business rates growth is now retained locally by the councils, and by a Suffolk "pool";
- the councils set council tax discounts locally, rather than eligible residents receiving council tax benefit;
- the New Homes Bonus; and
- the funding of Disabled Facilities Grants from the Better Care Fund.

It is expected that each of these mechanisms will continue into 2016-2020, although each is subject to further changes by central government.

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 five years.

Of particular interest is the government's spending review and autumn 2015 statement stating that:

- The main grant to local government will be phased out.
- Consultation will be undertaken in 2016 on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament.
- New homes Bonus consultation commenced in 2016 including reducing the length of payments from 6 years to 4 years.
- There is no Council Tax Freeze Grant for 2016/17 as it is anticipated by the government that councils will raise their council tax by the full amount.

The changes to local government finance outlined in the spending review and autumn statement form part of the government's devolution agenda, by reducing local authorities' reliance on central government, and encouraging greater self-sufficiency. West Suffolk is working with other authorities in East Anglia to consider the implications of these changes for the future shape of local government and economic growth in the region.

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 showed percentage of over 65s in West Suffolk had 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 rural deprivation impacts on how we fund and deliver council services. 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 are transforming 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 with 2016/17 revenue support grants reducing by 28% for Forest Heath and 39% for St Edmundsbury compared to 2015/16, and being phased out completely by 2019/20 for St Edmundsbury and by 2020/21 for Forest Heath. If Council Tax Freeze grant, which has now been rolled into revenue support grant, is removed from the revenue support grant figures, the cuts shown are deeper (31% for Forest Heath and 49% for St Edmundsbury).

A sustainable future for West Suffolk in the face of funding cuts and spending pressures is dependent upon continuing to change 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. These themes were developed for the 2014-16 MTFS period, and will continue into 2016-2020, as they represent an appropriate response to the ongoing financial situation:

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 2016-20 which is available here http://www.westsuffolk.gov.uk/council/policies_strategies_and_plans/strategicplan.cfm?aud=council ,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 in excess of £3.5 million per annum in savings for West Suffolk which is in addition to local savings made by each council alone. Further change management is planned. However a number of Business Process Re-engineering reviews were carried out during 2014-16 and the recommendations from these continue to be implemented. In particular, these reviews have resulted in the further integration of customer facing systems (e.g. customer records management) with back-office systems, to allow customers to complete transactions online. Business Process Re-engineering reviews will also continue to be carried out in 2016-20 to ensure further streamlining and efficiencies can be achieved.
The Business Partner model will continue to be operated through the MTFS period, whereby corporate or support services provide specialist support and expertise to all service areas and project teams.

Sharing services has to be wider than just West Suffolk. The Councils are involved in a programme of Suffolk-wide working, supported by funding from central Government, through the Transformation Challenge Award. This work aims to integrate work by public sector partners across the Suffolk "system" so as to improve the lives of Suffolk residents and achieve savings for council tax payers. As well as working with those within the public sector "system", we are also continuing to work in partnership with local communities, enabling them to support themselves.

The Councils are also working with partners to maximise the opportunities offered by the Government's devolution agenda. This involves both considering how powers, funding or freedoms can be devolved to Suffolk from Whitehall and considering where responsibilities best sit within the Suffolk "system".

3. **Behaving more commercially**

Over the period of the last MTFS (2014-16), more commercial behaviours have begun to be embedded in key parts of the councils' work, with implications for the councils' finances. On the one hand, a number of savings have been achieved as a result of more business-like behaviours, and on the other hand, additional income has been generated in some service areas. Behaving more commercially will therefore continue to be a key theme running through the work needed to deliver our outcomes and a sustainable MTFS.

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

The councils have begun work on becoming "investing authorities" over the period 2014-16 and will look to continue to do so in 2016-2020. Both councils have a long tradition of investing in their communities in support of the delivery of their shared strategic priorities, in particular to aid economic growth across West Suffolk.

Depleting capital and revenue reserves and increased pressure on external funding mean that both councils want to consider investing away from the traditional funding models such as using their 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 willing to consider, in appropriate circumstances.

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 3.65% 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 a level 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 its 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 ongoing 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 single customer support team created in 2013 has already proven the benefits of both integrated first-point-of-contact support and promoting channel shift.

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.

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 continue to be 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

The councils regularly engage with residents, businesses, community groups and interest groups through a range of consultation mechanisms. Sometimes these are formal exercises, for example, public consultations or public meetings, and sometimes they are more informal, for example, focus groups, community engagement within localities and stakeholder liaison on a topic by topic basis. Our overall aim is to carry out timely and proportionate consultation that is available in an accessible format for everyone who wants to give us their views on a particular matter. Details of current and closed consultations by the councils are available here:
http://www.westsuffolk.gov.uk/council/consultations/

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;
- delivering the necessary savings to continue to live within our means;
- continuously improving 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 their 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

	2017/18	**2018/19**	**2019/20**
	Annual saving *	**Annual saving ***	**Annual saving ***
Forest Heath DC	£0.951m	£0.444m	£0.224m
St Edmundsbury BC	£1.127m	£0.392m	£0.026m
Both Councils	**£2.078m**	**£0.836m**	**£0.250m**

* Annual savings required to achieve a balanced budget

Both councils' 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

	2016/17		2017/18		2018/19		2019/20	
	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC
General Inflation	0%		0%		0%		0%	
Fees & Charges	2%		2%		2%		2%	
Employee Pay Increase	1%		1%		1%		1%	
Utilities	5%		5%		5%		5%	
Employers Pension (based on actuarial valuation reports)	27.0%	25.7%	30.0%	27.7%	33.0%	29.7%	36.3%	31.8%
Vacancy Savings	2.5%		2.5%		2.5%		2.5%	
Transport (Fuel)	5%		5%		5%		5%	
Return on Investments	1.5%	0.9%	1.8%	1.5%	2.0%	2.0%	2.5%	2.5%
Grant Reduction as % of RSG (reducing balance)	-28.3%	-39.4%	-34.2%	-54.3%	-33.2%	-72.4%	-55.6%	-100%

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 approximately 23% for St Edmundsbury and 24% for Forest Heath of net expenditure at the 2016/17 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 2019/20 are expected to be as follows:

- £8.3m for Forest Heath DC; and
- £10.9m 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

	2016/17		2017/18		2018/19		2019/20	
	FHDC £000s	SEBC £000s	FHDC £000s	SEBC £000s	FHDC £000s	SEBC £000s	FHDC £000s	SEBC £000s
Asset Management Plans	0	1,318	0	1,342	0	1,342	0	1,342
Waste Freighters & Plant	230	600	230	600	230	600	230	600
Supplies & Services	70	269	70	289	70	289	70	289

Investment Framework

With the emphasis on 'investing' in key strategic projects to support the delivery of the shared priorities, it is important that both councils set out their approach to considering each project on its own merits alongside a set of desired collective 'investing' programme outcomes. This is particularly important when set against the backdrop of continued financial challenges for local government associated with medium to long term funding uncertainties.

In September 2015 both Councils adopted a new West Suffolk Investment Framework which set out the desired collective 'investing' programme outcomes to support staff and members throughout the initial development stages to the decision making stages of our key strategic projects, particularly those that require the Councils to invest.

The Investment Framework also supports the Councils' compliance with 'The Prudential Code for Capital Finance in Local Authorities (the Code)' and sets out the links with a number of Councils strategic documents and polices including its Treasury Management Strategy and Code of Practice.

Treasury management

Both Council's capital and revenue budget plans inform the development of their Treasury Management Strategies, which are agreed annually as part of its budget setting report. The Treasury Management Annual Strategy details; who the Council can invest with and the maximum amount that can be invested, alongside the Councils borrowing requirements and sources. The Strategy 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.

As West Suffolk changes direction, begins to operate in new ways and seeks new opportunities, the type of decisions we are now having to make will feel unfamiliar, more complex and could carry greater risks. For example, the councils' increasing focus on investment and on new delivery vehicles requires decisions that bring new risks and opportunities into play.

During 2015/16, both Councils adopted a new, positive approach to risk (link provided at the end of the MTFS) based on seven core principles as detailed below. Our approach considers risk on a case by case basis and is documented at all stages.

- A positive approach;
- Contextual decision making;
- Informed risk-taking;
- Proportionate;
- Decision risks vs delivery risks;
- A documented approach; and
- Continuous improvement

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 2015/16 to 2019/2020, 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 2015/16, the capital programme has been reviewed taking into account both the emerging priorities for West Suffolk detailed in our 2016-20 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 2016/17 to 2019/20.

Table 4: Estimated income from asset disposals 2016/17 to 2019/20

	2016/17		2017/18		2018/19		2019/20	
	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC
Estimated income from asset disposals	£0.2m	£0.5m	£0.2m	£0.5m	£0.2m	£0.5m	£0.2m	£0.5m

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 2016/17 to 2019/20.

Table 5: Estimated capital reserve balance 2016/17 to 2019/20

	2016/17		2017/18		2018/19		2019/20	
	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC	FHDC	SEBC
Estimated capital reserve balance	£6.7m	£6.7m	£3.7m	£6.8m	£3.6m	£6.8m	£3.6m	£6.9m

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).

Business rate retention scheme
The Business Rates Retention Scheme introduced by Government from April 2013 is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth that is generated in business rates revenue in their areas, as opposed to the previous system where all business rates revenues are held centrally.

Under the scheme local authorities were also allowed to form pools for the purposes of business rates retention. Both West Suffolk authorities signed up along with the other Suffolk Authorities and the County Council to be designated as a Suffolk pool from April 2013.

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.

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 precepting 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 is currently set at 50%. At the outset, the local share of the estimated business rates aggregate is 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.

Referendum
Power under which the Government may limit the level of council tax increase year on year. Any major precepting authority in England wanting to raise council tax by more than 2% must consult the public in a referendum. Councils losing a referendum would have to revert to a lower increase in bills.

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

Revenue Support Grant (RSG)
All authorities receive Revenue Support Grant from central government.

Risk Management

We define risk as being uncertainty of outcome, whether relating to 'positive' opportunities or 'negative' threats / hazards. Our new, positive approach to risk is based on context, proportionality, judgement and evidence-based decision making that considers risk on a case by case basis and is documented at all stages. We will be joined-up in our decisions, and will draw on one another's skills and experience to take responsibility for sound and reasonable decisions about the use of public funds, avoiding a blame culture when things go wrong. http://westsuffolkintranet/howto/risk-management.cfm

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

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 'tariff' 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.

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College Heath Road
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St Edmundsbury Borough Council
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Bury St Edmunds IP33 3YU
Tel: 01284 763233
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Chief Executive: Ian Gallin
Tel: 01284 757001 email: ian.gallin@westsuffolk.gov.uk

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ATTACHMENT D
Appendix 1
AMENDED

SEBC MEDIUM TERM FINANCIAL STRATEGY

Description	Item	2014/15 Actual £'000	2015/16 Forecast Position £'000	2016/17 Total Budget £'000	2017/18 Projected Budget £'000	2018/19 Projected Budget £'000	2019/20 Projected Budget £'000
Net Service Expenditure before Interest	1	**12,771**	**13,012**	**12,965**	**12,046**	**12,549**	**12,925**
Forecast Underspend	2		0				
Interest received on investment of cash balances	3	(360)	(256)	(277)	(385)	(515)	(640)
Net Expenditure after Interest and Capital	4	**12,411**	**12,756**	**12,688**	**11,661**	**12,034**	**12,285**
Savings Required:							
2016/17	5	0	0	0	0	0	0
2017/18	6	0	0	0	(1,127)	(1,127)	(1,127)
2018/19	7	0	0	0	0	(392)	(392)
2019/20	8	0	0	0	0	0	(26)
Transfer to/(from) General Fund Balance	9	(355)	0	(224)	0	0	0
Budget Requirement (excluding Parishes)	10	**12,056**	**12,756**	**12,464**	**10,534**	**10,515**	**10,740**
Collection Fund Deficit/(Surplus) - Council Tax	11	83	(167)	(187)	0	0	0
Collection Fund Deficit/(Surplus) - Business Rates	12	463	240	331	0	0	0
Revenue Support Grant	13	(2,381)	(1,594)	(1,141)	(521)	(144)	0
Business Rates Retention - Baseline funding	14	(2,155)	(2,197)	(2,306)	(2,352)	(2,399)	(2,447)
Business Rates Retention - Local Share of Growth/S31 Grants	15	(342)	(613)	(542)	(506)	(516)	(527)
Business Rates Retention - Share of Suffolk Pooling	16	(228)	(188)	(179)	(183)	(187)	(190)
Business Rates Retention - Renewable Energy	17	(155)	(432)	(262)	(267)	(273)	(278)
Local Services Support Grant	18	(49)	(49)	0	0	0	0
Efficiency Support for Services in Sparse Areas	19	(21)	(29)	(37)	(65)	(93)	(121)
Council Tax Freeze Grant 2011/12 to 2015/16	20	(300)	(365)	0	0	0	0
New Homes Bonus Grant	21	(886)	(1,219)	(1,754)	0	0	0
Amount to be charged to Council Taxpayers	22	**6,085**	**6,143**	**6,387**	**6,640**	**6,903**	**7,177**
Council Tax Base	23	34,725	35,058	35,737	36,429	37,135	37,854
Council Tax at Band D (£ p)	24	£175.23	£175.23	£178.72	£182.27	£185.90	£189.60
Budgeted Increase Year on Year (%)	25	0.00%	0.00%	1.99%	1.99%	1.99%	1.99%
Budgeted Increase Year on Year (£ p)	26	£0.00	£0.00	£3.49	£3.56	£3.63	£3.70
Total Council Tax Generated Excluding Parishes	27	**6,085**	**6,143**	**6,387**	**6,640**	**6,903**	**7,177**
General Fund							
Balance as at 1 April	28	3,579	3,224	3,224	3,000	3,000	3,000
Transfer to / (from) Reserve	29	(355)	0	(224)	0	0	0
Closing Balance as at 31 March	30	3,224	3,224	3,000	3,000	3,000	3,000
Net Expenditure for General Fund purposes	31	12,411	12,756	12,688	11,661	12,034	12,285
General Fund balance as % of Net Expenditure	32	25.98%	25.27%	23.64%	25.73%	24.93%	24.42%
Earmarked Reserves							
Balance as at 1 April	33	12,614	13,404	14,228	12,134	11,492	11,312
Contributions to / (from) Reserves	34	790	824	(2,094)	(642)	(180)	(432)
Closing Balance as at 31 March	35	13,404	14,228	12,134	11,492	11,312	10,880
Capital Receipts							
Balance as at 1 April	36	14,763	15,114	13,580	6,747	6,797	6,847
Movement in the year	37	351	(1,534)	(6,833)	50	50	50
Closing Balance as at 31 March	38	15,114	13,580	6,747	6,797	6,847	6,897

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St Edmundsbury Borough Council - 2016/17 Reserves

Attachment D
Appendix 3 AMENDED

Reserve Details	2015/16 Opening Balance £	2015/16 Forecast Net Movement £	2016/17 Opening Balance £	2016/17 Contribution to Reserve £	2016/17 Contribution from Reserve £	2017/18 Opening Balance £	2017/18 Contribution to Reserve £	2017/18 Contribution from Reserve £	2018/19 Opening Balance £
Strategic Priorities & MTFS Reserve *	**2,346,657**	(53,915)	**2,292,742**	1,754,021	(1,275,110)	**2,771,653**	0	(517,101)	**2,254,552** *
Invest to Save Reserve	**890,202**	(329,702)	**560,500**	124,362	(26,740)	**658,122**	0	0	**658,122**
Risk/Recession Reserve	**38,795**	62,900	**101,695**	48,046	316,945	**466,686**	0	0	**466,686**
BRR Equalisation Reserve	**588,294**	112,978	**701,272**	0	(333,242)	**368,030**	0	0	**368,030**
Self Insured Fund	**231,387**	(1,387)	**230,000**	50,000	0	**280,000**	50,000	(50,000)	**280,000**
Computer & Telephone Equipment Reserve	**300,279**	24,721	**325,000**	73,000	0	**398,000**	73,000	0	**471,000**
Office Equipment Reserve	**828,364**	(408,503)	**419,861**	39,800	0	**459,661**	39,800	0	**499,461**
Section 106 - Public Service Village	**47,595**	(24,750)	**22,845**	0	(6,269)	**16,576**	0	0	**16,576**
HB Equalisation Reserve	**1,606,812**	(86,570)	**1,520,242**	0	(328,659)	**1,191,583**	0	(77,630)	**1,113,953**
Special Pension Reserve	**316,945**	(0)	**316,945**	0	(316,945)	**0**	0	0	**0**
Interest Equalisation Reserve	**187,266**	80,000	**267,266**	0	0	**267,266**	0	0	**267,266**
Professional Fees Reserve	**0**	65,000	**65,000**	65,000	0	**130,000**	65,000	0	**195,000**
ARP Reserve	**59,896**	0	**59,896**	0	200,000	**259,896**	0	0	**259,896**
Vehicle & Plant Renewal Fund	**2,184,299**	442,000	**2,626,299**	600,000	(2,445,000)	**781,299**	600,000	(474,400)	**906,899**
Waste Management Reserve	**113,040**	172,300	**285,340**	80,700	(58,400)	**307,640**	80,700	(58,400)	**329,940**
BR-Building Repairs Reserve - Leisure	**611,488**	(148,207)	**463,281**	329,221	(586,000)	**206,502**	334,000	(334,000)	**206,502**
BR-Building Repairs Reserve - Other	**1,257,449**	142,551	**1,400,000**	989,000	(1,200,426)	**1,188,574**	1,008,050	(1,234,500)	**962,124**
BR-Bunting Road Service	**11,779**	(0)	**11,779**	0	(11,779)	**0**	0	0	**0**
BR-Leased Flats Management	**33,957**	0	**33,957**	0	0	**33,957**	0	0	**33,957**
Industrial Rent Reserve	**0**	1,000,000	**1,000,000**	0	(110,000)	**890,000**	0	(110,000)	**780,000**
Commuted Maintenance Reserve	**685,175**	(106,175)	**579,000**	0	(102,900)	**476,100**	0	(108,900)	**367,200**
M-Gershom Parkington Bequest	**526,319**	5,681	**532,000**	8,300	(4,800)	**535,500**	8,300	(4,800)	**539,000**
M-Others	**65,279**	0	**65,279**	0	0	**65,279**	0	0	**65,279**
The Apex Reserve	**32,580**	(15,000)	**17,580**	20,000	(19,000)	**18,580**	20,000	(14,000)	**24,580**
Abbey Gardens Donation	**20,927**	(11,100)	**9,827**	0	0	**9,827**	0	0	**9,827**
Rural Areas Action Plan	**90,818**	(0)	**90,818**	0	(23,318)	**67,500**	0	(22,500)	**45,000**
Planning Reserve	**137,679**	(30,000)	**107,679**	90,000	(58,500)	**139,179**	90,000	(30,000)	**199,179**
EI-Historic Building Grants	**621**	(621)	**0**	0	0	**0**	0	0	**0**
S106 Monitoring Officer Reserve	**13,617**	(13,617)	**0**	0	0	**0**	0	0	**0**
Economic Development Reserve (LABGI)	**50,597**	(5,000)	**45,597**	0	(5,000)	**40,597**	0	(5,000)	**35,597**
Election Reserve	**126,366**	(50,000)	**76,366**	30,000	0	**106,366**	30,000	0	**136,366**
St Edmundsbury Reserve Totals:	**13,404,482**	**823,584**	**14,228,066**	**4,301,450**	**(6,395,143)**	**12,134,373**	**2,398,850**	**(3,041,231)**	**11,491,992**

* Attachment E highlights in the narrative, the additional commitments that are currently only estimates, which may utilise a large proportion of the balance on this reserve.

St Edmundsbury Borough Council - 2016/17 Reserves

Attachment D
Appendix 3 AMENDED

Reserve Details	2018/19 Opening Balance £	2018/19 Contribution to Reserve £	2018/19 Contribution from Reserve £	2019/20 Opening Balance £	2019/20 Contribution to Reserve £	2019/20 Contribution from Reserve £	2019/20 Closing Balance £
Strategic Priorities & MTFS Reserve *	**2,254,552**	0	(98,092)	**2,156,460**	0	(99,073)	**2,057,387** *
Invest to Save Reserve	**658,122**	0	0	**658,122**	0	0	**658,122**
Risk/Recession Reserve	**466,686**	0	0	**466,686**	0	0	**466,686**
BRR Equalisation Reserve	**368,030**	0	0	**368,030**	0	0	**368,030**
Self Insured Fund	**280,000**	50,000	(50,000)	**280,000**	50,000	(50,000)	**280,000**
Computer & Telephone Equipment Reserve	**471,000**	73,000	0	**544,000**	73,000	0	**617,000**
Office Equipment Reserve	**499,461**	39,800	0	**539,261**	39,800	0	**579,061**
Section 106 - Public Service Village	**16,576**	0	0	**16,576**	0	0	**16,576**
HB Equalisation Reserve	**1,113,953**	0	(77,630)	**1,036,323**	0	(77,630)	**958,693**
Special Pension Reserve	**0**	0	0	**0**	0	0	**0**
Interest Equalisation Reserve	**267,266**	0	0	**267,266**	0	0	**267,266**
Professional Fees Reserve	**195,000**	65,000	0	**260,000**	65,000	0	**325,000**
ARP Reserve	**259,896**	0	0	**259,896**	0	0	**259,896**
Vehicle & Plant Renewal Fund	**906,899**	600,000	(439,700)	**1,067,199**	600,000	(534,000)	**1,133,199**
Waste Management Reserve	**329,940**	80,700	(58,400)	**352,240**	80,700	(58,400)	**374,540**
BR-Building Repairs Reserve - Leisure	**206,502**	334,000	(334,000)	**206,502**	334,000	(334,000)	**206,502**
BR-Building Repairs Reserve - Other	**962,124**	1,008,050	(1,234,500)	**735,674**	1,008,050	(1,234,500)	**509,224**
BR-Bunting Road Service	**0**	0	0	**0**	0	0	**0**
BR-Leased Flats Management	**33,957**	0	0	**33,957**	0	0	**33,957**
Industrial Rent Reserve	**780,000**	0	(110,000)	**670,000**	0	(110,000)	**560,000**
Commuted Maintenance Reserve	**367,200**	0	(108,900)	**258,300**	0	(108,900)	**149,400**
M-Gershom Parkington Bequest	**539,000**	8,300	(4,800)	**542,500**	8,300	(4,800)	**546,000**
M-Others	**65,279**	0	0	**65,279**	0	0	**65,279**
The Apex Reserve	**24,580**	20,000	(5,000)	**39,580**	20,000	(12,000)	**47,580**
Abbey Gardens Donation	**9,827**	0	0	**9,827**	0	0	**9,827**
Rural Areas Action Plan	**45,000**	0	(22,500)	**22,500**	0	(22,500)	**0**
Planning Reserve	**199,179**	90,000	(30,000)	**259,179**	90,000	(100,000)	**249,179**
EI-Historic Building Grants	**0**	0	0	**0**	0	0	**0**
S106 Monitoring Officer Reserve	**0**	0	0	**0**	0	0	**0**
Economic Development Reserve (LABGI)	**35,597**	0	(5,000)	**30,597**	0	(5,000)	**25,597**
Election Reserve	**136,366**	30,000	0	**166,366**	30,000	(80,000)	**116,366**
St Edmundsbury Reserve Totals:	**11,491,992**	**2,398,850**	**(2,578,522)**	**11,312,320**	**2,398,850**	**(2,830,803)**	**10,880,367**

* Attachment E highlights in the narrative, the additional commitments that are currently only estimates, which may utilise a large proportion of the balance on this reserve.

Cabinet

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Enterprise Zones: Update**	
Report No:	**CAB/SE/16/006**	
Report to and date/s:	**Cabinet**	9 February 2016
	Council	23 February 2016
Portfolio holder:	Alaric Pugh Portfolio Holder for Planning and Growth **Tel:** 07930 460899 **Email**: alaric.pugh@stedsbc.gov.uk	
Lead officer:	Steven Wood Head of Planning and Growth **Tel:** 01284 757306 **Email:** steven.wood@westsuffolk.gov.uk	
Purpose of report:	It was announced in the Autumn Statement that both the Enterprise Zone (EZ) bids submitted by our two Local Enterprise Partnerships (LEPs) were successful. This paper provides an update as to the current position and seeks Cabinet's recommendation to Council to include land at Suffolk Business Park and at Haverhill Research Park in the designated new EZs.	
Recommendations:	**Cabinet is asked to <u>NOTE</u> that the Enterprise Zone (EZ) bids by the New Anglia Local Enterprise Partnership (which includes 14 hectares of land at Suffolk Business Park) and the Greater Cambridge Greater Peterborough Local Enterprise Partnership (which includes Haverhill Research Park) were successful.** **It had been made clear to both LEPs that in the event that either of their applications were successful that full Council approval was still required.** **<u>Cabinet is further asked to RECOMMEND</u> to Council that:** **(1) the allocation of the Enterprise Zones be accepted for implementation in April 2016 and delegated authority be given to Cabinet to negotiate and agree the details and precise terms of the Enterprise Zones (including entering into any**	

	legal agreements), subject to inclusion of a clause that requires discussions and, if necessary, renegotiation of the terms around the possible changes that come with Business Rates Retention in 2020; **(2) subject to (1) above, delegated authority be given to the Head of Planning and Growth in consultation with the s151 Officer to work with the Local Enterprise Partnerships and other bodies to promote the two Enterprise Zones;** **(3) delegated authority also be given to Cabinet to approve business cases for investment in on-site infrastructure to support the development of the EZs as and when these come forward and before any works can commence; and** **(4) Council approves the discretionary business rates discount for new businesses locating within the EZs as explained in paragraph 4.7 of Report No: CAB/SE/16/006.**
Key Decision: *(Check the appropriate box and delete all those that* ***do not*** *apply.)*	*Is this a Key Decision and, if so, under which definition?* Yes, it is a Key Decision - ☐ No, it is not a Key Decision - ☒ As the decisions require full Council approval.
Consultation:	NONE
Alternative option(s):	The alternative option is that neither Haverhill Research Park nor land at Suffolk Business Park is included within a LEP wide Enterprise Zone. This decision would mean that Business Rates growth achieved on these sites in future would remain as it currently is (detailed below). The economic benefits of Enterprise Zones would not be realised in West Suffolk. Suffolk Business Park and Haverhill Research Park may then have to compete with sites, locally and across the region with EZ status.

Implications:	
Are there any ***financial*** *implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the report.
Are there any ***staffing*** *implications? If yes, please give details*	Yes ☐ No ☒ •
Are there any ***ICT*** *implications? If yes, please give details*	Yes ☐ No ☒ •

*Are there any **legal and/or policy** implications? If yes, please give details*		Yes ☒ No ☐ • The potential impact of Business Rates retention in 2020 and agreeing a local business case and EZ partnership agreement.	
*Are there any **equality** implications? If yes, please give details*		Yes ☐ No ☒	
Risk/opportunity assessment:		*(potential hazards or opportunities affecting corporate, service or project objectives)*	
Risk area	**Inherent level of risk** (before controls)	**Controls**	**Residual risk** (after controls)
Reduction in Business Rates income. (LEP agreement negotiated could mean that in the short term the EZs yield less immediate revenue than the council would otherwise receive from potential business rates growth).	Medium	Both sites are currently vacant land and therefore there is no business rates income at this time. Future development and business rates are unknown. Final terms, including business rates sharing, are to be to be agreed with the LEPs.	Medium
Reduction in Planning Fee's	Low	Possible reduction in Planning fee's through the implementation of a Local Development Order. This will be counterbalanced by the income share terms to be agreed with both LEPs.	Low
Ward(s) affected:		All Wards	
Background papers: *(all background papers are to be published on the website and a link included)*		Cabinet Report No: CAB/SE/15/064	
Documents attached:		None	

Key issues and reasons for recommendations

1. Background

1.1 Established in 2012, Enterprise Zones (EZs) are at the heart of the Government's long term economic plan, supporting businesses to grow. EZs are designated areas of land that offer incentives to businesses, which in turn increase the likelihood of bringing forward commercial development sooner than would otherwise be achieved. EZ status is granted for an initial 25 year period and councils must work with Local Enterprise Partnerships (LEPs) to deliver EZs.

1.2 Businesses basing themselves on Enterprise Zones can access a number of benefits such as up to 100% business rate discount worth up to £275,000 per business for a total of 5 years (this is fully funded such that central government reimburse the Billing Authority, St Edmundsbury Borough Council, for the lost income). This is usually available to businesses basing themselves in the EZ within the first five years only. Any business rate discount after the first five years would have to be funded locally although this is not proposed at this time.

1.3 Local Authorities (LAs) are encouraged to introduce streamlined planning processes on EZs. For example, Local Development Orders (LDO) grant Permitted Development Rights for certain development (such as new industrial buildings or for changing how existing buildings are used) within specified areas, or Planning Performance Agreements.

1.4 All business rates growth generated by the Enterprise Zone over the 25 year period is returned to the Local Billing Authority although the LEP determines how it is spent. A local sharing agreement is then put in place with local partners (such as the LAs) to agree how and what it is spent upon, though there is the expectation that some of the business rates growth is used to fund infrastructure requirements in the EZ where necessary.

1.5 Statistics provided by Government in support of EZs highlight that, since their start in April 2012 (there were 24 areas with EZ status prior to the current bidding round, including Alconbury and Great Yarmouth & Lowestoft in the East) 'they have laid down the foundations for success for 540 businesses, attracting over £2.2 billion pounds of private sector investment, building world class business facilities and transport links and attracting 19,000 jobs. Momentum is now building across the programme and many zones are poised for substantial development in the coming months and years'.

1.6 Of the first 24 EZs, the first 10 had been directly awarded to the largest cities outside London. A further 12 were awarded through a competition and include Alconbury and Great Yarmouth & Lowestoft Enterprise Zones (the latter of which is focussed on the energy sector). Two more were awarded to areas to compensate for economic shocks.

1.7 In addition to these first 24 Enterprise Zones, the Government announced earlier in 2015 the creation of 17 Food Enterprise Zones (FEZs). Whilst FEZs will not offer business rates incentives they will offer local development orders, streamlining planning procedures for businesses that meet the zones' criteria.

Mid Suffolk Planning Authority (Gipping Valley) and Babergh Planning Authority (Orwell food cluster) were two areas awarded FEZ status.

2. Latest bidding round

2.1 In the Budget (July 2015) Chancellor George Osborne announced plans to create further Enterprise Zones, and a new bidding round was officially launched on 15 July 2015.

2.2 Local Enterprise Partnerships were again asked to lead the bidding process and the management of the zones. The deadline for completion and submission of bids was Friday 18 September 2015. Announcements on the success of bids were expected in the autumn 2015 with the new EZs due to be operational from April 2016.

2.3 This latest round differed from the previous Enterprise Zone bidding rounds in that Government expressed its desire to bring forward a range of different sites across smaller towns and rural places, as opposed to single, larger sites.

2.4 Sites that met the criteria were assessed, both internally by officers (taking into account the impacts and benefits from a change/increase in the business rates collected), and then externally by agents appointed by the LEPs, for suitability against the EZ criteria. Support was also sought from the relevant landowners.

2.5 Following this assessment an initial agreement was reached with both LEPs to include two sites from St Edmundsbury within the bidding round. Greater Cambridge Greater Peterborough Enterprise Partnership (GCGP) included land at Haverhill Research Park (HRP) within its bid, whilst the New Anglia Local Enterprise Partnership's (NALEP) bid included 14 hectares of land at Suffolk Business Park (SBP).

2.6 It was made clear to both LEPs that because of the scale of the likely financial implications of a successful EZ bid/s that, constitutionally, approval by full Council would still be necessary.

2.7 Approval of Report No: CAB/SE/15/064 gave delegated authority for the S151 and Monitoring Officers to pursue the Enterprise Zone discussions further in the event that either or both of the bids were successful.

2.8 In the 2015 Autumn Statement the Chancellor, George Osborne, announced the successful new EZs which included both the new EZ bids submitted by our two LEPs. These new EZs will commence from 1st April 2016.

The new multi-sited EZs are –

- GCGP 'Cambridge Compass' which alongside HRP includes land at Lancaster Way, Ely – East Cambridgeshire, Cambridge Research Park, Camborne Business Park and Northstowe in South Cambridgeshire.

- NALEP 'Space to Innovate' which alongside the 14 hectares at SBP includes sites at Norwich Research Park, Scottow Enterprise Park and Egmere Business Zone in North Norfolk, 4 sites in Greater Ipswich, Nar Ouse

Business Park, King's Lynn and Mill Lane Business & Enterprise Park, Stowmarket.

2.9 The Government announcement means, effectively, that St Edmundsbury will have two key commercial sites with EZ status from 1 April 2016 and authority is sought from Council to accept the allocation of EZ status.

3. **Current position**

3.1 Whilst Officers have been working to fully understand what this may mean to St Edmundsbury Borough Council's (SEBC) future share of business rates income before the start of the EZs, the timescales put before us have meant that it has not been possible to put together an acceptable businesses case at this date to aid this understanding. This situation affects all local authorities.

3.2 Officers have modelled potential income from an indicative development at both SBP and HRP. However, as both SBP and HRP are new 'Greenfield' sites, future commercial development is unknown, as is the actual share of business rates growth that St Edmundsbury Borough Council (SEBC) will receive.

3.3 Both sites are currently vacant 'Greenfield' land and there is no business rates income from either site at present.

3.4 Whilst we understand that discussions have taken place with businesses interested in locating to HRP, no final decisions have been taken to do so. At SBP development is dependent upon the completion of the Eastern Relief Road (ERR), the construction of which is due to commence this spring (2016). The ERR is likely to be completed in 12 to 18 months from its commencement.

3.5 However, EZ status brings the potential to positively bring forward and stimulate interest and commercial development. EZs offer benefits for businesses such as business rates discounts (where applicable) and a simpler route to development, as Local Authorities are encouraged to put in place simplified planning processes.

3.6 These incentives are supported by enhanced marketing to promote the unique EZ offer and by support from organisations such as UK Trade & Investment to assist in delivering growth within the EZ from abroad.

3.7 Locally, EZ designation means that all business rates growth sits outside of the existing arrangements, and is effectively retained by the relevant LEP for the life of the EZ (25 years). Key to the acceptability of this arrangement is that a share agreement is put in place to locally to redistribute this growth with local partners, such as LAs.

3.8 The Government's expectation is that some of the business rates growth within the EZs will be invested by the local partners, such as the LEPs, SEBC and Suffolk County Council (SCC), back into the EZ to deliver the necessary infrastructure. It is argued that investing in the EZ is usually essential for its success. It is extremely likely, therefore, that SEBC will need to make a contribution towards these costs from its anticipated business rates growth. Consequently only a portion of new rates income will be available for revenue use. No discussions have been held with SCC at this moment with regard to this issue. SCC will clearly need to make this decision itself.

3.9 No decisions will be made regarding SEBC's possible investment in the on-site infrastructure without the provision of a business case. Delegated authority is requested for Cabinet to approve such a case.

4. **<u>Remaining questions</u>**

4.1 Whilst the announcement is welcomed, one or two questions remain and the position regarding the following still needs to be determined.

4.2 <u>Business Rates Income</u> – through the current business rates sharing arrangements St Edmundsbury Borough Council (SEBC) is able to retain approximately 26% of business rates growth. (SEBC's actual current share of growth is 40% but it actually retains 20% and pays the other 20% into the 'Suffolk Pool'. It then receives back 6%. Overall, SEBC retains 26% of the growth).

4.3 In contrast, both LEPs have taken a different approach to how business rates growth should be shared between the local partners within the EZs, and it is these figures that need to be negotiated and agreed as part of a wider business case that reflects possible infrastructure contributions. Whilst it is not possible to put a timeline on the completion of the business plan, officers will seek to complete this as soon as further information is available. No decisions will be made regarding SEBCs possible investment in the on-site infrastructure without the provision of a business case. Such a business case is likely to include the vision and objectives for the zone; the approach to development; the likely impact; the baseline; growth sectors and barriers to growth. In other areas this business case has been prepared by the LEP itself. Delegated authority is requested for Cabinet to approve such a case.

4.4 The proposals put to us by both LEPs for the 25 year term of the EZs include:

(1) confirmation that a share of the business rates growth is retained locally by the LAs (SEBC/SCC);

(2) an expectation that contributions will be made from the business rates growth on the EZ towards the delivery of any infrastructure costs that may need to be met; and

(3) that the LEPs retain an amount of the business rates growth for investment in the wider LEP area. The details of these are also to be negotiated.

4.5 <u>Business Rates Retention 2020</u> - it was also announced in the 2015 Autumn Statement that the Government would consult on its plans for Business Rates Retention (BRR) at some point in 2016. This is likely to be a new approach to how business rates will be shared, including how they are retained by LAs from 2020. Again, the details of BRR are unknown.

4.6 Though indications from DCLG are that these new local government finance arrangements will not alter the EZ position, these changes will undoubtedly occur during the term of the EZ agreement if they are approved by

Government. What this means to business rates income outside of an EZ, and how this compares with income from within an EZ, is unknown. It is therefore important to protect the Council's position from any negative unknown change to its income through the inclusion of a review clause in the 25 year local agreement with the LEPs.

4.7 Business Rates Discount – one of the benefits to a business of basing themselves on an EZ is the 100% business rate discount which they may be able to access (worth up to £275,000 per business over a five year period, up to the EU de minimus level). Whilst this is fully funded, as Government reimburses the Local Billing Authority, it is still a discretionary discount and Anglia Revenues Partnership has asked for it to be formally approved by the Council.

5. **Conclusion**

5.1 The Council's previous decision to support the principle of EZs is not affected, as the benefits are still demonstrable. Whilst the financial impacts of entering into the EZs are still being worked through, officers, under the guidance of Cabinet, will seek to agree a position with both LEPs whereby the longer term growth of the EZs will enhance overall local business growth and protect/potentially increase income to SEBC in the future. This is a position that will also deliver new local jobs for local people.

5.2 It could be argued that EZ status has a positive impact upon the amount of business rates income from the sites. If this is the case, the reinvestment of business rates growth in each EZ is likely to result in more business rates in the longer term.