ATTACHMENT D

Forest Heath & St Edmundsbury councils

West Suffolk

working together

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

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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 streamlines the public sector system in the west of Suffolk.

Working more efficiently, through shared services, moving to digital forms of communication 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 the most vulnerable in our 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. This will mean we will continue to seek out new opportunities to behave more commercially, to make wise investments where appropriate and to consider new ways of delivering services, for example, setting up companies and joint ventures.

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 models of finance, 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
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Forest Heath District Council

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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 will commence 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 took place 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	£1.002m	£0.445m	£0.225m
St Edmundsbury BC	£1.172m	£0.393m	£0.027m
Both Councils	**£2.174m**	**£0.838m**	**£0.252m**

* 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
- £11.1m 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 Councils' 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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