Appendix 1

Lewes District Council

MEDIUM TERM FINANCIAL STRATEGY

2018/19 – 2023/24

1 INTRODUCTION

1.1 The **Medium Term Financial Strategy** (MTFS) sets the strategic financial direction for the Council and is regularly updated as it evolves and develops throughout the year to form the framework for the Council's financial planning. As is the first year of the incoming Section 151 Officer, continuity was viewed as more important and the assumptions are not materially different to last year's report bar minor changes due to improved data.

1.2 To ensure Members have a sound basis for planning and decision making, the MTFS in the future will be reviewed and updated at key points in the year these are:

- Midyear – as a series of principles and as a framework for initial detailed budget discussions for the forthcoming financial year;
- December/January – an update to include additional information received at a national level and corporate issues identified through service planning, and the detailed budget build; and
- February – with the final Budget for the new financial year.

1.3 The purpose of the MTFS is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are managed effectively and are able to deliver the aspirations of the Council as set out in the Corporate Plan, over the medium term.

1.4 The vision of the Lewes business plan is to "*committed to providing value for money for our residents and keeping Council Tax levels as low as possible, despite the challenging financial climate.*"

1.5 The key underlying principles of the MTFS are:

- securing a balanced budget and setting modest increases in Council tax when appropriate; and
- delivering service efficiencies and generating additional income where there are opportunities to do so.
- ensuring that the council maintains sufficient reserves and contingencies to be resilient to manage the increased level of risks associated with a more commercial agenda.

1.6 In setting annual budgets the Council has a policy of meeting its ongoing budget requirement from ongoing resources in each year. The policy applies to the cycle of the MTFS, as it is reasonable to use reserves to smooth out the budget requirement as savings accrue over the cycle. By not using reserves in this manner it means that reserves over the minimum level are available for one off investments in services decided via the service and financial planning process.

1.7 The Council, as a registered social landlord is obliged to run a Housing Revenue Account (HRA) that is statutorily ring-fenced from its general fund. A 30 year rolling business plan has been adopted for the HRA. The Council is working in partnership with Lewes to deliver efficiency savings in partnership using shared services. All savings accruing to the HRA are reinvested in housing services.

1.8 As with all Councils, the effect of inflation is felt on gross expenditure, whilst any increase in council tax or grant is based on a net position. This "gearing effect" means that there is a natural gap of at least £250k per annum that needs to be met from efficiencies (approximately 2-3% of net spend) if services are to be protected. This is on top of the Government reductions. Given the current reduction in grant and the inability to raise council tax in real terms due to capping criteria, the Council has to look to longer term measures to maintain sustainable finances. Therefore, it is looking to a combination of at the very least self-financing investments to locally regenerate the area and commercialising existing services.

1.9 Part of the process of delivering a robust MTFS to enable the Council to manage its affairs soundly, is to have regard to both external and internal risks, and to identify actions to mitigate those risks. A MTFS risk analysis together with mitigating actions is provided in Appendix B1.

2 ECONOMIC PICTURE & PUBLIC FINANCES

2.1 The national economic background affects the costs the Council incurs, the funding it receives, and contributes to the demand for services as residents are affected by economic circumstances. The inflation rate impacts on the cost of services the Council procures, as the Council delivers much of its service provision through contractual arrangements where inflationary pressures have to be negotiated and managed. Specific contractual inflation has been incorporated into the Council's financial position, where appropriate, based on the actual contractual indices.

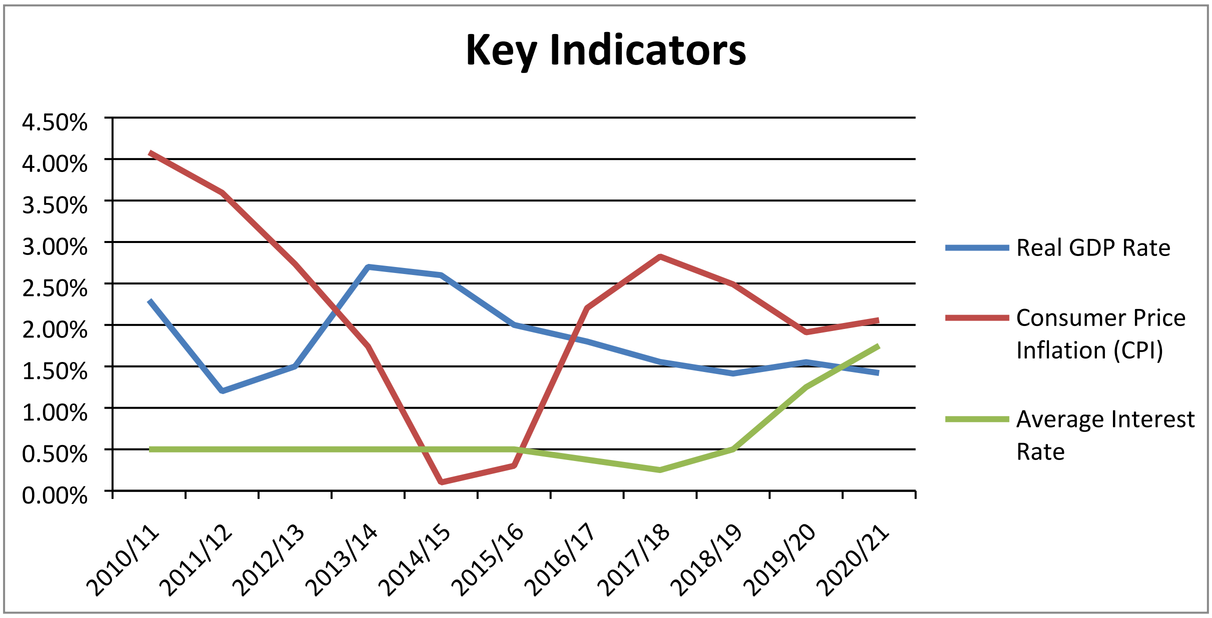
2.2 The wider economic picture is challenging for local government. The Chancellor's budget delivered on 29th October was not regarded by the Institute for Fiscal Studies as a 'bonanza', with its director, Paul Johnson, stating that "many public services are going to feel squeezed for some time." Even upper tier authorities see £650m additional social care monies as not covering the planned cuts for 2019/20.

Gross Domestic Product (GDP)

2.3 Growth is estimated to be weak for the new future at 1.6% for 2019 after an estimated 1.3% in 2018. Therefore, with Brexit on the horizon, currently anticipated to take place on March 29th 2019, it is unlikely that the Council will see an improvement in its funding from central government, particularly as there is still one year to go on its current 4-year financial settlement. The only possible exception is if the Chancellor is required to release his fiscal firepower to prevent a maj**o**r recession. District councils are also likely to be lower down the priorities of any government with the NHS, tax cuts and highways utilising the majority of additional incoming public resources (tax growth).

Consumer Price Index (CPI)

2.4 Inflation as measured by CPI, was 2.4% for September 2018, down from 2.7% in August. The Bank of England latest forecast (as at November 2018 is set out below. The BoE target rate for inflation is 2%.



* 2010/11 to 2016/17 based on ONS Data. 2017/18 and forecasts based on Office for Budgetary Responsibility data. It is important to note that 2018/19 to 2020/21 are forecasts and should be treated as such. Interest rate projects are assumed to be 0.5% per year as the Governor originally suggested would be likely. Impact of Brexit is unknown.

Bank Interest Rate

2.5 Interest rates are at 0.75% and it is not anticipated that they would rise prior to Brexit on March 29th. However, it is widely assumed that the gradual projection is upwards. Interest rates on short-term debt in the local government market are now around 0.7-0.9% for 6 months to 1 year debt. It was widely assumed until recently that interest rate increases would be limited to 0.5% per year. However, it is important to note that the Bank of England has referred to the new natural interest rate level as being between 2% and 3%.

Public Sector Pay

2.6 From April the National Living Wage will rise again, by 4.9%, from £7.83 to £8.21. This demonstrates that while pay is going up at 2% for those on NJPC scales and 2% for those on the Chief Officer pay rates, that at the bottom there will be a bigger impact, more significantly affecting the bottom line of the council.

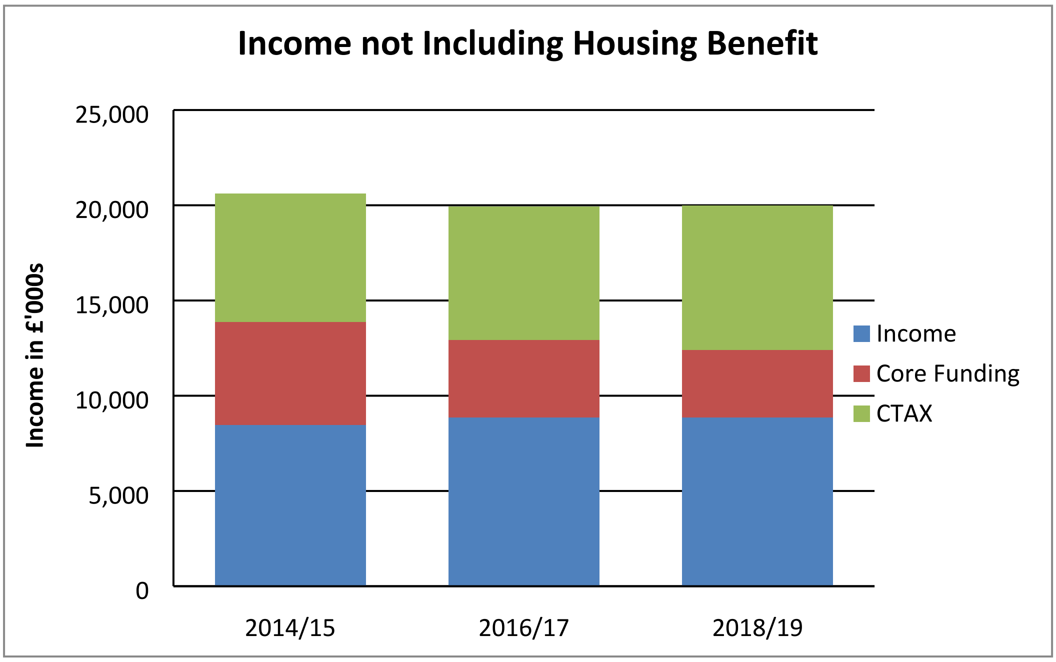
3 CORE FUNDING

3.1 The 2016/17 Settlement offered councils a four-year settlement, giving greater certainty of funding until the end of the spending period (2019/20). The 2019 Spending Review will confirm overall local government resourcing from 2020/21, and the Government is working towards significant reform in the local government finance system in 2020/21. This includes an update to the baseline funding levels and resetting business rates baseline.

Revenue Support Grant (RSG)

3.2 RSG has substantially reduced in recent years and is now zero. The funding settlement for Lewes has become tougher over the years, as the central government grants are now limited to cover the cost of housing benefit and one-off matters of Government interest. Negative RSG, which occurs when the Council pays the government a central government grant rather than the other way around, has been eliminated recently but in practice this means that Government will reduce Councils' business rate entitlement instead of asking Lewes to give it an RSG payment.

3.3 In the long run, despite cuts now going back almost a decade, there is no end in sight to austerity for local government, even if it ends in the rest of the public sector. Even county councils, which have received some limited extra social care funding, expect to continue to need to go beyond efficiency measures. Ultimately, uncertainty, limited funding for social care and the scale of the reduction of government funding has put county council finances in a difficult position. Lewes Council cannot avoid the fallout from such a situation as services that deal with vulnerable residents are already facing greater pressures, such as Housing.



3.4 The Chart above shows the change in the income profile with a high level estimate for 2022/23 based on existing trends, subject to the caveat that central government has the right to significantly reduce our funding further and faster. However, the overall trend is clear that Core Funding (NNDR +RSG) is declining while income from fees, charges and commercial income is growing as a percentage of total funding and in real terms.

3.5 On 24 July 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued a technical consultation on the 2019/20 Local Government Finance Settlement. The consultation closed on 18 September 2018. The document set out the Government's proposed approach to the 2019/20 Settlement and outlined the following:

- The fourth year of the multi-year settlement
- The Government's position on the New Homes Bonus threshold
- The Government's proposal for Council Tax referendum principles for 2019/20
- The Government's proposal for dealing with the issue of 'Negative Revenue Support Grant'

3.6 In April 2018 the former Secretary of State commissioned a review of the MHCLG oversight of the business rates system. On 24 October 2018 the report of an independent review of the governance and processes of the system was published. The terms of reference for the review were set out under five themes: complexity; governance and management; capacity and capability; openness; and culture. In general, the review found that MHCLG and local authorities have managed the growing complexity of the system well, however noted that the Department's processes can be strengthened to ensure future challenges can be managed effectively.

3.7 In addition to focus on the MHCLG's own processes, the report also considered the overall approach to annual decisions on the local government finance system. The report recommended that the Provision Settlement should be released around 5 December and the Final Settlement no later than the 5 January. Having a clear settlement timetable in place will help ensure that local authorities can take a more planned approach. In light of this recommendation, the MHCLG has announced that it will aim to publish the Provisional Settlement for 2019/20 on 6 December 2018.

Business Rate Pool

3.8 This year, the Council re-entered into the existing pooled arrangement across East Sussex to retain the benefits of growth locally. It is anticipated that this will generate £200k of additional resources. Due to a change in government policy, the new pilot arrangements will in the future only keep 75% of the share in growth, whereas previously Central Government had a clear intent to achieve 100% localised funding as quick as possible.

75% Business Rate Pilot

3.9 In July of this year, The Government invited local authorities in England to apply for a 75% business rate retention pilot scheme for 2019/20. Lewes District Council jointly with its East Sussex Business Rate pooling partners submitted their bid to become BR Pilot on 25 September. The successful bids are expected to be announced prior or at the time of the provisional local government financial settlement in early December. Based on the work undertaken by LG Futures, the Council could see additional retained income of about £200k.

Business Rate Growth

3.10 Nationally, business rate is growing by inflation but many internet-based businesses are able to avoid the tax impact and there are national concerns that this has on the high street. The Government offered £1.5bn of reductions to business rates to smaller businesses which it will fund back to authorities via section 31 grants.

3.11 It is also important to recognise that second tier councils' share of business rates could be at risk of being reduced in the future. This is to allow redistribution of the resources to higher priority services and economically disadvantageous authorities. This will lead to the Council becoming ever more reliant on council tax, fees and charges and commercial income sources.

Fair Funding

3.12 The Fair Funding review will affect how funding is allocated and redistributed between local authorities from 2020. How this will be done is the subject of further consultation between now and mid-2019. The Government is continuing to work with the Local Government Association (LGA) and local authority representatives to develop the new system. Indicative numbers for funding allocations to individual councils are expected to be available by spring-summer 2019, and the review is to be implemented in April 2020 via the Local Government Finance Settlement process.

Council Tax

3.13 The Chart below demonstrates the change in Council Tax over the years. The 2019/20 position assumes 1.99% in Council Tax Growth and that existing preceptor demand follows existing patterns. From 2020/21 onwards, it will only be assumed that there is 0.3% growth in the Council Tax base. It is important to note that these numbers include the average of special expenses, which exist to ensure no parish is charged for Council Tax for services that they do not receive.

Year	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Band D Equivalent	**£189.61**	**£ 190.61**	**£195.05**	**£200.84**	**£204.84**
Precept	**£6,632,448**	**£6,823,300**	**£7,089,200**	**£7,438,000**	**£7,609,000**

New Homes Bonus (NHB)

3.14 Following the reduction from 6 years to 4 years of allocation, New Homes Bonus allocation is expected to drop significantly again. This is because Councils are now required to achieve a net baseline growth of 0.4% in Band D equivalent homes before they can receive any NHB income.

3.15 Self-sufficiency and resilience are key concepts to the path for all southern district councils but particularly for Lewes with its desire to regenerate the local economy and transform deprivation.

4 RESOURCES AVAILABLE TO LEWES & LOCAL CHALLENGES

4.1 As can be seen in the above Chart of Income (Section 3), Lewes has become ever more reliant on internally generated resources and local taxation. This has a positive benefit in that we are more locally focussed and respond directly to local needs. However, it also means that we are less resilient if there is a downturn in the local economy. Furthermore, it necessitates the need to have healthy reserves and a strong balance sheet.

4.2 The Council has been prudent in assumptions and has successfully delivered on the Joint Transformation Plan and will inevitably generate further efficiencies. However, these will now form a smaller part of the future savings than new or additional income growth, as efficiencies have their limits. This necessitates a more structured approach to understanding our fees and charges and identifying areas where income can be most easily grown.

4.3 It is important to recognise that such income sources can take years to generate. Large projects will not necessarily deliver in their entirety from year 1, as there is inevitably a lead-in time and therefore prudently the Council is careful not to rely overly heavily on one project. More importantly, Lewes cannot rely too heavily on immediate savings as most income growth going forward will be slower to ramp up and the Council will need to programme in the potential for significant delays. Once again the need for significant reserves becomes clear.

Housing Revenue Account (HRA)

4.4 The scrapping of the HRA borrowing cap has given Lewes flexibility and the opportunity to borrow in a more efficient fashion. The Government is also consulting on relaxing its RtB formulae, to encourage shared ownership products and to allow us to use up to 50% of RtB funding on affordable housing, rather than the current 30%. The Council will ensure that it finances capital activities in the most efficient way possible to minimize unnecessary borrowing.

Capital Investment

4.5 The Capital Investment Programme also has an effect on the Councils revenue finances as any investments that cannot be met from grants, contributions, capital receipts or revenue funding need to be met from borrowing. This has to be repaid with interest from revenue and/or capital receipts over time. The General Fund policy is to use borrowing only on a business case basis.

4.6 Any such borrowing is fully financed by way of interest charges and the Minimum Revenue Provision (MRP) which is the capital repayment. As new schemes that require borrowing are approved, the Council has to make provision for repayment via the capital financing budget. In order to keep this sustainable a stability mechanism that pools the following budgets is maintained.

- Interest earned
- Interest payable on debt
- Minimum Revenue Provision
- Revenue contributions to the capital programme (to balance)

4.7 It is up to Councils to set their own MRP and balances of Capital Receipts and Contributions can be offset to reduce this liability in the short term, although this only provides for short-term relief against the cost of capital. Any budget surplus from interest and MRP is recycled into the capital programme by way of a transfer to the "capital programme reserve". This system creates a stabiliser mechanism between interrelated budgets.

4.8 Capital investment can be used as "invest to save" therefore borrowing is an important tool in the overall financial strategy where savings on schemes exceed the cost of capital. More recently it has been necessary to look for investments that have a yield over and above the borrowing costs to make a net contribution to the general fund. The Council has also taken advantage of schemes that give a return by providing a guarantee to a third party rather than incurring debt, contingent liabilities and corresponding assets are shown on the Council's balance sheet to reflect this.

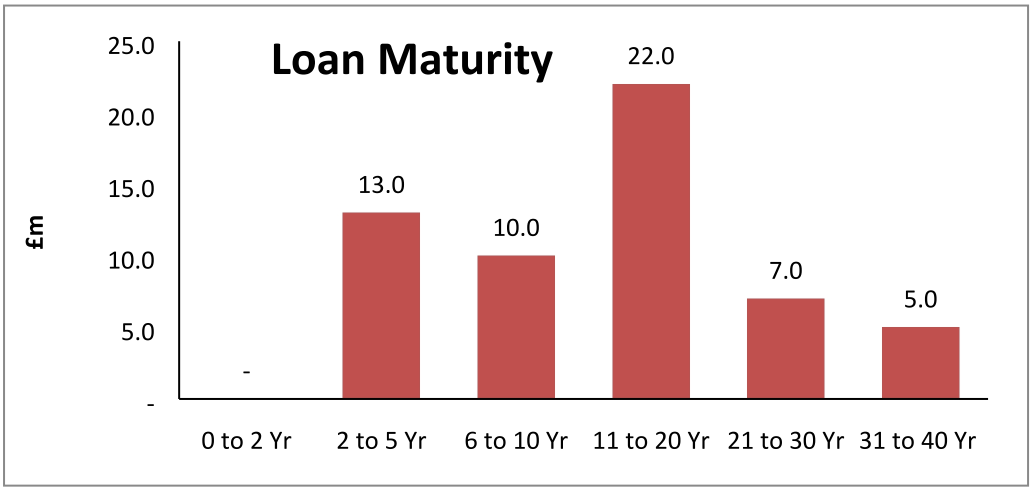
4.9 The Capital Programme has a significant focus on return on investment, and the borough's focus on commercial opportunities must be understood through the lens of economic development and regeneration. Lewes is aware of CIPFA's position that it should not borrow for commercial investment purposes and that is why its investment

Capital Programme	£'000s	Funded by:	£'000s
HRA Housing Investment	9,079	Capital Receipts	1,720
GF Housing Investment	3,979	Reserves	10,650
LHIC/Aspiration Homes	20,000	Capital Grants	2,684
Joint Transformation Plan	913	Capital Expenditure Financed from Revenue	358
Regeneration	34,305		15,412
Special Delivery/Specialist/IT	3,321		
	71,597	Gap that will be covered by Borrowing	56,185

focus is on locally beneficial investments.

4.10 Lewes is a net borrower due to the HRA self-financing settlement but it has not needed to borrow for years and so invests up to £20m with other local authorities, money market funds and the Debt Management Office. However, there is a future need to borrow. Going forward those rates are unlikely to be favourable, as the UK appears to be on a gradual path to normalisation, subject the standard caveat of Brexit.

4.11 The Council's borrowing requirements are expected to be over £50m but the timing of this relates to capital delivery and interest rate predictions. The timing of Brexit and whether to borrow slightly ahead of need to ensure a favourable rate bears heavily on the borrowing decision. It also needs to take into account of internal borrowing. This is another reason as to why every year, the Council prudently reviews its capital programme to ensure that its priorities remain the same and that the Council makes the most efficient use of its resources.



4.12 For 2019/20, the Council will be producing a capital investment strategy for the budget to comply with new statutory regulations. Therefore, it is not intended that the MTFS should cover Lewes's approach to capital investment in excessive detail.

5 REVENUE STRATEGY – EFFICIENCIES

5.1 Lewes and Eastbourne Councils' shared Joint Transformation Plan has delivered £2.8m savings and is anticipated to deliver a further £0.4m in 2019/20. By sharing services and business process re-engineering the way it operates, it has been successful in transforming its services. This places a heavy reliance on systems and careful implementation and re-training of existing employees.

5.2 The Council will continue on this path of transformation of core services but ultimately the organisation cannot produce enough savings by this process alone and so it will also need to find new ways to generate income, as discussed in section 7.

5.3 The priority in the immediate term is to produce a robust budget with confidence in the key assumptions.

6 REVENUE STRATEGY – INCOME GROWTH

6.1 The Council has assumed income inflation each year and £200k of new income sources in 2019/20.

6.2 Lewes is increasingly taking a more commercial approach to generating new income in the district, including property and housing development opportunities. Over the next 5 years, the council will examine the opportunities the case for commercialising existing services and examining instances where the cost of operations needs to be covered.

7 RISK ANALYSIS

Risks	Cost	Impact	Likelihood	Detail and Possible Mitigations
0.25% change in interest rates on our existing capital programme	£56m	£0.14m	High	The Bank of England has suggested 2 rises of 0.25% per year is probably for the next 3 years. Therefore, the Council could look to borrow earlier than when it needs it – upto to 2 years in the future. The main lesson learned is that all projects need to cover borrowing costs unless the Council chooses to increase its savings target.
1% change in pay	£8m	£0.08m	Low	This is set nationally and pay is growing slightly over 2% per year, except next year due to a review of payscales. A possible mitigation is that all services would need to cover pay inflation locally by holding vacancies.
1% change in average price inflation	£10m	£0.1m	Medium	Current inflation and Brexit means there is a significant likelihood of above average rises. However, the main contracts that are funded are only worth £3m so a £30k impact is possibly more likely.
1% change in pensions	£8m	£0.08m	Low	It is expected that Lewes will continue to see its lump sum increase by £50k per year to clear the existing deficits but this is already included in our assumptions. The risk is that the actuaries will adjust their assumptions requiring a higher contribution rate due to a more negative view on our investment returns. This is difficult to predict at present.
Unfunded business rate discounts by Government	£m?	£m?	Medium	This is a common strategy of Central Government when it can offer tax cuts at no cost to itself. The impact is unknown but so far has been containable.
9% Reduction in retained NNDR	£2.8m	£0.25m annually	High	This reduction has already been modelled as the 9% reduction in reduced core funding (NNDR+RSG) was the original approach of the Coalition Government. Any over-provision could offset other costs in future years.

7.1 Interest rate risk of £0.56m (£0.14m*4 interest rate rises) and the 1% change in average price inflation (£0.1m) are the two main probable risks that the MTFS does not mitigate beyond the use of reserves. The Council's General Fund unallocated reserves would cover the realisation of these risks for three years. This indicates why the MTFS always needs to be prudent and why reserves are a key part of the Council's risk strategy.

8 RESERVES

8.1 As can be seen below the Council has significant reserves. However, the majority of these reserves are related to the Housing Revenue Account or are earmarked for specific purposes. This means that in practice, the reserves available to cover one-off needs or unexpected overspends is more limited.

		Known			Forecast	
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
General Fund (Working Capital & Emergency Funds)	(2,066)	(2,062)	(2,093)	(2,107)	(2,129)	(2,148)
Capital & Regeneration	(5,770)	(5,802)	(4,765)	(4,352)	(3,775)	(3,361)
Earmarked/Grant Reserves	(4,949)	(4,294)	(3,972)	(3,560)	(3,242)	(2,929)
Total General Fund	**(12,785)**	**(12,158)**	**(10,830)**	**(10,019)**	**(9,147)**	**(8,438)**
HRA (incl. MRR)	(4,883)	(7,805)	(7,427)	(7,973)	(7,413)	(7,433)
Total	**(17,668)**	**(19,963)**	**(18,257)**	**(17,992)**	**(16,560)**	**(15,871)**

8.2 It is up to the Section 151 officer to set the appropriate level of reserves that they believe the authority should maintain. Currently, £2m or approximately 15% of the net general expenditure budget is considered to be within the range that is deemed appropriate. Further work will be undertaken to maximize on opportunities to create additional financial resilience to protect the Council against any new and additional risks which it may face.

5-YEAR MEDIUM TERM FINANCIAL PLAN PROJECTIONS

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Adjusted Base Budget	10,777	11,167	11,697	10,857	10,689	10,650
Pay and Price Inflation	202	223	257	253	253	253
Inflation on Contracts	23	23	100	100	100	100
Capital Financing						
Growth		491	30	25		
	11,002	11,904	12,084	11,235	11,042	11,003
External Funding						
RSG	(2)	0	0	0	0	0
Retained Business Rates	(2,907)	(2,619)	(2,383)	(2,169)	(1,974)	(1,796)
Business Rates Pool	0	(200)	0	0	0	0
Other Government Grants	(378)	(340)	(306)	(275)	(247)	(222)
New Homes Bonus	(649)	(556)	(323)	(220)	(220)	(220)
Total External Funding	(3,936)	(3,715)	(3,012)	(2,664)	(2,441)	(2,238)
Council Tax	(7,438)	(7,438)	(7,669)	(7,845)	(8,025)	(8,209)
Council Tax Growth		(231)	(176)	(180)	(184)	(188)
Council Tax Surplus	(130)	0	0	0	0	0
Total Sources of Funding	(11,504)	(11,384)	(10,857)	(10,689)	(10,650)	(10,635)
Gap	(502)	520	1,227	546	392	368
Fees and Charges		(191)				
Growth - one-off		464				
JTP - Shared Transformation	(700)	(200)				
Wave leisure service fee reduction	(104)					
Final Phasing out of LCTS Grant to Towns & Parishes	(30)	(30)	(30)	(30)	(30)	(20)
Income - Commercial	(200)					
HRA contribution to JTP		(250)				
Balance to/from Reserves	1,536	(313)	323	220	220	220
Cumulative Gap/ (Surplus)	0	0	1,520	2,256	2,838	3,406
Total General Reserves B/fwd	(10,830)	(10,019)	(9,456)	(8,009)	(5,723)	(2,855)
Non recurring service investments		250	250	250	250	250
Budget Balance from/(to) reserves	811	313	1,197	2,036	2,618	3,186
Total General Reserves C/fwd	(10,019)	(9,456)	(8,009)	(5,723)	(2,855)	581

9 PRIORITIES, AIMS AND OBJECTIVES

9.1 The Lewes Business Plan provides the overarching vision for Lewes. In fulfilment of the Plan, the Council makes use of significant resources to achieve its aims including money, people, property and technology. In order to allocate resources to competing demands, achieve effective and efficient use of its resources, best value and ultimately achieve its vision, the Council has several strategies and plans which give a clear sense of direction and underpin the deployment of those resources.

10 STRATEGY OBJECTIVES

10.1 The Council's MTFS aims to ensure the provision of the best quality services possible within the resources available. To do so it must maximise the use of its resources to ensure they are used efficiently and effectively to support the development of longer term sustainable objectives.

10.2 The specific objectives of the MTFS are to:

a) ensure that the Council sets a balanced, sustainable budget year by year, so that forecast spending does not exceed forecast resources available to it;

b) plan for a level of Council Tax that the Council, its residents and Government see as necessary, acceptable and affordable to ensure that it has the financial capacity to deliver the Council's policies and objectives;

c) redirect resources over time to adequately support and resource the priorities of the both the Council and the wider community; and

d) maintain sufficient reserves and balances to ensure that the Council's long term financial health remains sound.

11 STRATEGY PRINCIPLES

11.1 The principles set out below provide a framework within which the Council will develop its detailed financial plan over the medium term.

General

11.2 There are a number of overarching principles that will apply across the Council's detailed financial accounting, planning and monitoring:

a) that the Council's budgets, financial records and accounts will be prepared and maintained in line with approved Accounting Standards, the CIPFA Code of Practice on Local Government Accounting, the CIPFA Prudential Code and the relevant sections of the Council's Constitution and Finance Procedure Rules;

b) prior to setting a budget, the Council will always analyse potential risks and ensure these are minimised in line with its Risk Management Strategy;

c) that the Council's Corporate Management Team will review the budget proposals for reasonableness and adherence to corporate policies and objectives prior to the budget being submitted to Cabinet;

d) the Council will monitor its revenue and capital budgets effectively. Monitoring will be undertaken monthly by Heads of Service together with their portfolio holders, and integrated quarterly monitoring reports will be reported to Cabinet. In cases where significant financial and service performance deviates from that planned, action plans setting out corrective action will be drawn up by Heads of Service / Portfolio Holders and reported to Cabinet as appropriate;

e) that the Council's Corporate Management Team will take appropriate steps to continue to maintain and improve the accuracy and quality of data that it uses throughout the Council thereby ensuring that budget and other decisions are taken on a sound basis; and

f) the Council will seek to maximise external contributions towards revenue and capital spending for example through bidding for specific grants, attracting levered funding, participating in new funding streams and engaging in further strategic partnering opportunities where appropriate.

General Fund (Revenue)

11.3 In relation to its revenue budgets the Council will:

a) set a balanced budget each year that will be constructed to reflect its objectives, priorities and commitments. In particular, the budget will influence and be influenced by the Business Plan, the Organisational and Development Strategy, Capital and Asset Management Strategies, the Risk Management Strategy, its Comprehensive Equality Scheme and its Consultation and Engagement Strategies;

b) within the constraints of the resources available to it, set a sustainable budget each year that meets on-going commitments from on-going resources. The Council will continue to aim to maintain its level of general balances when it sets its revenue budget each year now that a prudent level of balances has been achieved;

c) seek to identify annual efficiency savings through business process improvement, shared service initiatives, service best value reviews and benchmarking and strategic partnering opportunities within and across county borders;

d) review the appropriateness of service delivery between the Council, parishes and other partners;

e) increase existing fees and charges on a market forces basis whilst having regard to the Council's policies and objectives. As a minimum fees and charges should be increased by price inflation. The Council will also review opportunities to introduce new fees as appropriate; and

f) within Government guidelines, set a level of Council Tax that the Council, its residents and Government see as necessary, acceptable and affordable to deliver the Council's policies and objectives.

Capital

11.4 When considering its capital investment, the Council will:

a) maximise the generation of capital receipts and grants to support its planned investment programmes;

b) enhance its capital investment by applying specific grants and contributions, capital receipts, earmarked reserves and revenue contributions, with any balance being met by external borrowing;

c) not recognise capital receipts until there is certainty that the receipt will materialise, and will not be earmarked against specific developments without express Cabinet approval;

d) allocate its capital resources in line with its Capital Strategy and Asset Management Plan whilst recognising that other priorities may emerge that may require those plans to be amended and resources to be diverted;

e) annually review and prioritise capital schemes in accordance with Council objectives having regard to:

- the business case for any given project; asset management planning; and
- affordability in line with the application of the Prudential Code.

Balances and Reserves

11.5 In relation to its balances and earmarked reserves, the Council will:

- each year, maintain the level of General Fund balances at around 15% of its budgeted net expenditure. This would lead the Council to maintain a General Fund balance around the £2m mark.

- have regard to the financial risks surrounding the budget planning process, including those associated with the structural deficit, inflationary pressures, interest rates, partnerships, the treatment of savings, new burdens and demand led expenditure.

- review its earmarked reserves, which have been established to meet known or predicted liabilities, to ensure that the level of those reserves are still appropriate; and

- return reserve balances no longer required to the General Fund as appropriate.

Treasury Management and Investment

11.6 The Council will:

a) having regard to risk, maximise investment income and minimise borrowing costs within the overall framework set out in the Council's annual Treasury Management and Investment Strategy; and

b) secure the stability of the Council's longer term financial position rather than seeking to make short-term one-off gains which may lead to higher costs in the long term.

c) having regard to risk, seek to diversify its investment portfolio; maximise investment income; and deliver economic development objectives through the Asset Investment Strategy (in development).

12 OTHER CONSIDERATIONS

12.1 The Council's spending will have regard to:

a) the base budget position for the current financial year, adjusted for in year grant changes;

b) the Council's medium term priorities;

c) the refocusing of service expenditure through transactional, shared services and other efficiencies to support the achievement of its medium term priorities and satisfy Government funding changes;

d) demographic and welfare changes;

e) consultation outcomes; and

f) fiscal matters including:

- price inflation
- the effect on the level of General Fund balances and reserves
- the impact of any changes to the capital programme on the potential costs of borrowing
- triennial revaluation of the pension fund
- ongoing commitments, arising in part, from initiatives that have previously been funded from specific grants
- achieving budgeted savings from outsourcing, shared services and service reviews
- the likely passporting of some Government departmental savings targets to councils

RISKS	LIKELIHOOD H (HIGH), M (MEDIUM), L)(LOW)	LIKELIHOOD H (HIGH), M (MEDIUM), L)(LOW)	MITIGATING ACTIONS
The absence of a robust Medium Term Financial Strategy could adversely affect the Council's budget and resource planning and projections.	L	H	Continually monitor and refine the strategy in line with changing influences. Update Corporate Management Team and Cabinet.
Failure to understand changing community needs and customer expectations can result in the Council providing levels of service which are not appropriately aligned to the needs of communities and customers.	L	H	Continuously engage with key stakeholders and take advantage of existing consultation methodologies. Continue to monitor and more closely align service levels to demand and need.
Government is continuously reducing its departmental spending budget. Failure to respond to these funding pressures may adversely impact on the Council's ability to service delivery.	H	H	Take advantage of the Council's growth opportunities to reduce dependency on government funding. Align service delivery to funding levels, improve exist strategy to minimise risk.
Budget pressures arising from housing and economic growth and other demographic changes.	H	H	Take advantage of technological advancements to understand and reduce unit costs, monitor demand for services and proactively manage resourcing requirements, invest in schemes to promote skills and developments.
Uncertain medium term sustainability of incentivised income areas subject to Government policy, economic factors, and revaluation e.g. Brexit, business rates and New Homes Bonus.	H	H	Constantly monitor information and update risk appraisals and financial projections. Provide timely briefings and updates to Members/ key stakeholders to facilitate decision making. Adopt prudent budgeting approach not placing undue reliance on uncertain funding sources.
Uncertainty surrounding the Government's change agenda including, business rates and welfare reform over the medium term.	H	H	Constantly monitor information from Government and update risk appraisals and financial projections. Provide timely briefings and updates to Members/

			key stakeholders to facilitate decision making. Lobby through the LGA as appropriate.
Budget pressures from demand led services and income variances reflecting the wider economy.	M	M	Monitor pressures throughout the budget process and take timely actions.
Costs arising from the triennial review of the Local Government Pension Scheme.	H	M	Review and monitor information from Government and actuaries. Update forecasts as necessary.
Interest rate exposure on investments and borrowing.	L	L	Review cash flows, ensuring the Council has a flexible and forward looking Treasury management policy.
The Council has entered into a number of strategic partnerships and contracts and is therefore susceptible to price changes.	M	H	Effective negotiation, sound governance arrangements and regular reviews of performance and partnership risks.
There is a potential risk to the Council if there is a financial failure of an external organisation, providing services to the public on behalf of the Council.	L	H	Ensure rigorous financial evaluations are carried out at tender stage. Consideration of processes to ensure annual review of the successful organisation, and review any external auditor comments.
Loss of key skills, resources and expertise.	M	M	Continue to invest in staff developments, service continuity measures. Monitor succession planning. Keep staff consulted and informed. Ensure employment terms and conditions are competitive and development needs identified through 'My Conversation' programme with staff are satisfied.
Changes of responsibility from Government can adversely impact on service priorities and objectives.	L	L	Sound system of service and financial planning in place. Lobby as appropriate.
Loss of reputation if unforeseen resource constraints result in unplanned service reductions.	L	H	Have in place strong governance and risk management discipline followed by identification and implementation of robust solutions in response to changes. Consult widely. Seek to achieve a prudent level of balances and reserves.