FINAL

MEDIUM TERM FINANCIAL STRATEGY

2017/18 to 2021/22

CONTENTS

1. INTRODUCTION

1.1 OVERVIEW

The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document and sets out the Council's strategic approach to the management of its finances and Council Tax levels. This strategy underpins the Council's priorities for the community as set out in the Five Year Plan and other strategic documents of the authority. It is important to realise and accept that the key aim of the MTFS is to facilitate the Council in achieving the targets set out in those documents, by setting parameters to work within, setting financial targets, identifying additional resources for priorities and developing financial projections to manage any deliverability or sustainability issues. This is especially important when considering the financial challenges faced by local government as the government attempts to reduce the size of the national deficit. The strategy considers the impact on both the community and the Council.

The MTFS looks to complement The Vision for Kent 2012-22 (developed by the Kent Forum of local authorities) which sets out three countywide ambitions which align with the Council's Five Year Plan:

- To grow the economy
- To tackle disadvantage
- To put the citizen in control

Consideration is given to the General Fund Revenue Account, Capital Programme and Treasury Management Policy. The MTFS also takes full account of other key plans and strategies including the Asset Management Plan and the HR Strategy (a full list of Council plans and strategies is available on the Council's website).

Consideration is also given to:

- Aspirations or policy objectives which will be delivered over the next five years;
- Financial projections for the next ten years;
- Risks which will need to be minimised or managed;
- Key developments in the external environment and their impact; and
- The Government's plans for the role and financing of Local Government.

The dynamic nature of the strategy means that an annual review of this document will be required to reflect developments and changes arising from new policies and changes to the external environment.

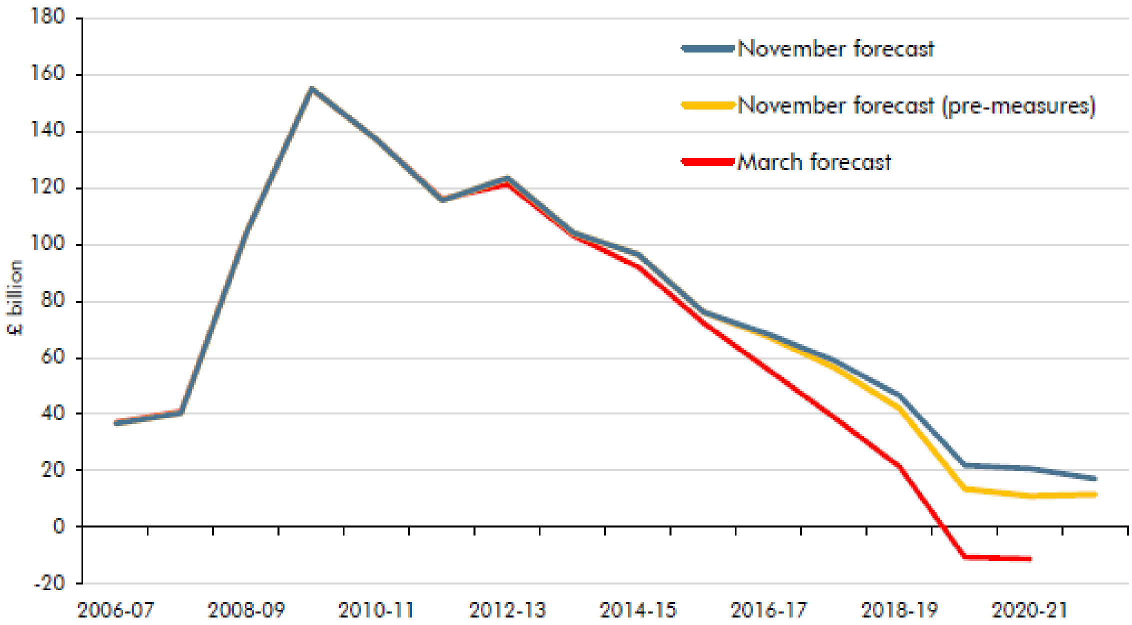
1.2 NATIONAL ECONOMIC OUTLOOK

The Chancellor of the Exchequer made his Autumn Statement to the House of Commons on 23 November 2016.

Net Government Borrowing

The Chancellor announced that the government has abandoned its commitment to reduce public sector net borrowing to a surplus by the end of the parliament. It is now planning for a deficit of £21.9 billion in 2019/20, compared to the surplus of £10.4 billion planned for at Budget 2016.

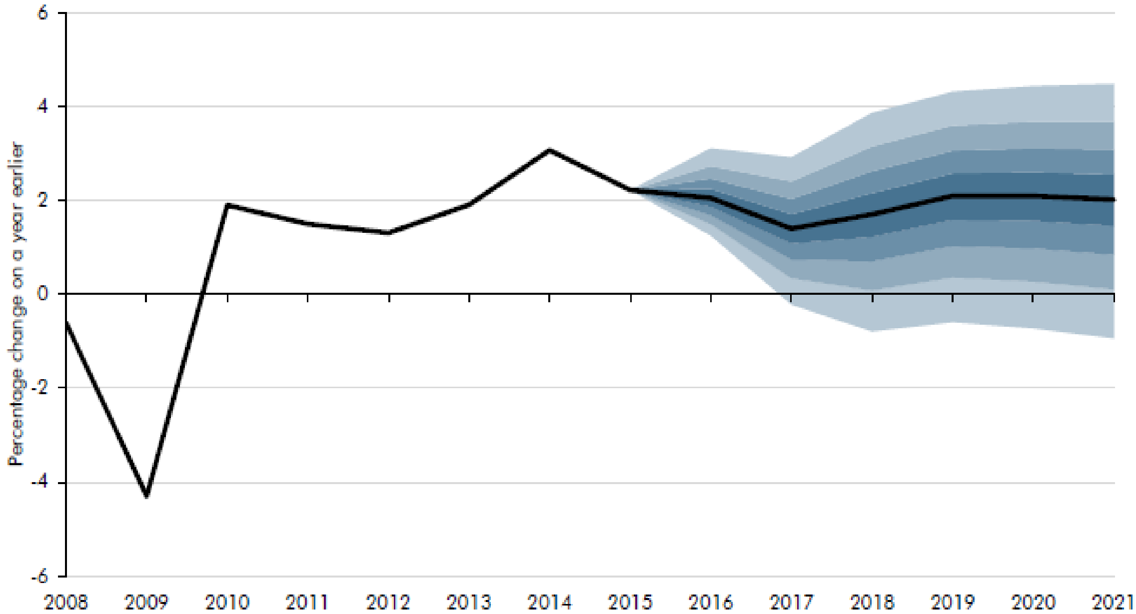
The Chancellor stated that the government is committed to the overall plans for departmental resource spending until 2019/20, which was set out at Spending Review 2015. Departmental resources will grow with inflation in 2020/21 and 2021/22. This is illustrated below;



Source: ONS, OBR

Gross Domestic Product (GDP)

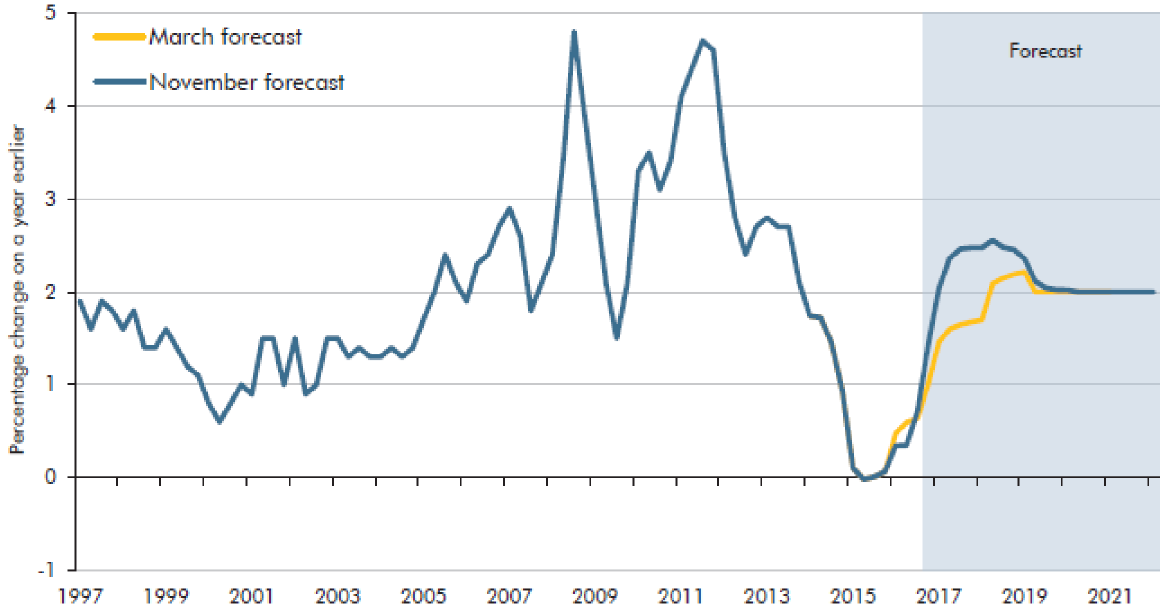
The Office of Budget Responsibility (OBR) revised down actual GDP growth. The OBR expect growth to slow further, reaching a trough of 0.2 per cent a quarter in the second quarter of 2017. Growth then picks up gradually in the second half of 2017 and through 2018. The OBR expect the economy to be running 0.7 per cent below full capacity by the end of 2017 (compared to 0.2 per cent in the third quarter this year), with above-trend growth then closing this output gap by mid-2021. At this stage the OBR have not assumed any further uncertainty-related hit to growth in 2019 when the UK's exit from the EU is assumed to be completed. This is illustrated below;



Source: ONS, OBR

Consumer Price Index (CPI)

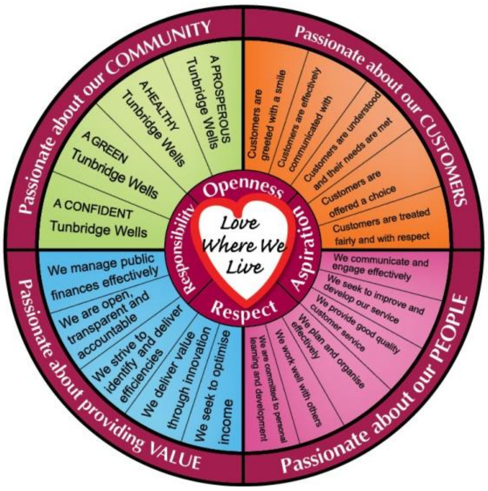
The OBR have revised up CPI inflation as the weaker pound pushes up import prices and therefore consumer prices. CPI inflation is forecast to rise from 0.9 per cent in October to above 2 per cent in early 2017, then to rise further before peaking at 2.6 per cent in mid-2018. The OBR assumes that it will return slowly to target over the following two years, this is illustrated below;



Source: ONS, OBR

1.3 OUR FIVE YEAR PLAN

The Council has set out its ambitions for the Borough in our Five Year Plan, which was subject to widespread consultation and engagement. The Council's overarching vision is 'Love Where We Live' under which we have three priority themes: 'Prosperous', 'Green' and 'Confident'. These are distilled into a programme of activity that are our Corporate Priorities, through the annual priority-setting process.



We set out our approach to service delivery in a simple graphic known as our 'Strategic Compass'. The 'North' of the Compass sets out what we deliver externally for residents, businesses, visitors and communities. The 'South' of the Compass sets out how we support the delivery of those projects and services through our staff and financial resources.

The Five Year Plan sets out the Council's mission statement as:

"The council is an enabler of change – encouraging economic growth and investment into the borough whilst ensuring the appropriate infrastructure is in place to support growth and enhance quality of life"

1.4 STRATEGIC FINANCIAL OBJECTIVES

The Council's Financial Strategy, outlined within this document, balances the Council's commitment to a regime of financial rigour, prudence and discipline with the need to facilitate innovation and strong financial management.

The 2015 Spending Review (SR15) has continued to reduce the amount of formula grant which adds to the financial pressures facing district councils. The Localism agenda has transferred various responsibilities to the Council but these are not fully funded which puts a further strain on to the Council's finances.

If the Council is to achieve its strategic financial objectives, further difficult decisions will need to be made. Effective prioritisation and management of resources, at the setting of the budget and in response to in-year variances, value for money initiatives and partnership working will therefore become increasingly significant in the coming years.

Overall, the MTFS proposes three strategic financial objectives that underpin the financial sustainability of the Council:

- Develop broader and stronger sources of income;
- Deliver growth to benefit from government financial incentives; and
- Create a balanced budget without the use of general reserves.

1.5 CORPORATE POLICY AND PLANNING FRAMEWORK

The Medium Term Financial Strategy forms part of the policy and governance framework and ensures that members, officers and the public are aware of the Council's financial position and the threats and opportunities that may affect that position.

1.6 THE ROLE OF FINANCE

Finance supports both the planning of services and challenging of their plans in a positive and constructive way. The specific responsibilities for Finance are listed below:

- Providing a minimum of five-year projections of the Council's financial position;
- Supporting and working with Heads of Service and Service Managers to develop the policy and strategic frameworks;
- Assisting in the identification, development and costing of options;
- Acting as a gatekeeper for the allocation and stewardship of resources including the monitoring and management of Financial and Contractual Procedure Rules;
- Advising on affordability, prudence and sustainability of the Council's plans and options;
- Assisting in obtaining and demonstrating value for money;
- Communicating the decisions made on options and their financial implications;
- Putting in place structures to help the delivery of the Council's financial plans whilst ensuring sound governance; and
- Co-ordinating the budget management processes of the Council.

Simply, to enable the Council's member and officer structure to achieve the Council's stated priorities.

1.7 SERVICE DELIVERY

Services should be supplied by those best-suited, whether in-house, other public providers, private or voluntary sectors. A number of joint working initiatives are already taking place. Management of the Council's leisure centres was outsourced during 2006/07; waste and parks are also contracted out to the private sector. A summary of current joint working involving staffing with other local authorities is shown below:

Service	Ashford B.C.	Maidstone B.C.	Sevenoaks D.C.	Swale B.C.	Tonbridge & Malling B.C.
Debt Recovery					
CCTV					
Equalities					
Licensing					
ICT					
Internal Audit					
Revenues and Benefits					
Legal					
Recycling					
Environmental Health					

1.8 EXTERNAL FUNDING

External funding should only be sought where funding will assist the Council in achieving its Five Year Plan and should not result in an increase to net expenditure in current or future years.

1.9 LIMITATIONS OF THE MTFS

There are a number of potential limitations to what a Council can achieve with its MTFS. For example:

- Timescales for implementation – even with revenue expenditure, there are commitments and changes with associated costs that may impact upon the time required to implement the necessary changes;
- Government targets and policy – informal pressure to comply with Government targets and policy objectives; and
- Statutory duties – these set out what the Council must do, although in most cases the Council can decide how it will perform its duties. For example, refuse must be collected – however, there is discretion on the frequency and method of collection.

1.9 CONSULTATION

The overall consultation for the MTFS is determined at three levels:

- **Technical Consultation:** carried out by officers individually across services as well as collectively through Management Board;
- **Member Consultation:** carried out through the Cabinet Advisory Board, one-to-one meetings with Portfolio Holders and through the normal Cabinet and Scrutiny process; and

- **Public Consultation:** carried out through a number of avenues that have been informed by the Council's Communications Strategy, Residents' Survey, Parish Chairmen, Town Forum, through the website consultation portal, as well as a more conventional budget consultation exercise through the Council's magazine, Local.

1.10 FINANCIAL PERFORMANCE

This is reviewed by Cabinet quarterly and annually by the Audit and Governance Committee. The Statement of Accounts also includes details on performance which is reviewed by External Auditors and included within their opinion in the Annual Audit Letter. Internally this area is managed through quarterly performance meetings of the Council's Senior Management Team prior to the publication of the suite of governance and performance reports.

2. GENERAL FUND REVENUE ACCOUNT

2.1 OVERVIEW

The General Fund Revenue Account is concerned with the day to day running of the Council's services. Tunbridge Wells Borough Council's 2017/18 General Fund Revenue Budget is £65.8m; after allowing for fees and charges and subsidies, the net budget to be financed by government grant and Council Tax is £12.3m.

2.2 STRATEGIC FINANCIAL OBJECTIVES

The main strategic objectives of the General Fund Revenue Account, which provides the underlying principles for financial planning, can be summarised as follows:

- To achieve and maintain a balanced General Fund Budget such that ongoing expenditure matches income from Council Tax, fees and charges, and government and other grants, with reserves and excess investment income only being used to finance one-off items of priority-related expenditure. Note: this will remain the Council's strategic aim, but the Council should consider on an annual basis whether to set this objective aside where severe economic pressures exist;
- To deliver growth to benefit from government financial incentives such as the New Homes Bonus and the Localisation of Business Rates;
- To invest in property as a means of diversifying the risk away from deposits with financial institutions and to seek a more reliable long term alternative to current major income streams;
- To develop broader and stronger sources of income;
- To use the Council's reserves in a cost-efficient and planned manner to deliver the Council's priorities;
- To maximise the Council's income by promptly raising all monies due and minimising the levels of arrears and debt write-offs;
- To maintain the General Revenue Reserve at not less than £2m;
- To incur only additional ongoing spending when matched by increased income or identified savings;
- To increase Council Tax levels by £5.00 a year for modelling purposes;
- To ensure that resources are aligned with the Five Year Plan and corporate priorities; and
- To engage local residents in the financial choices facing the Council.

The Council faces a number of difficult decisions if it is to achieve its corporate priorities without the use of reserves. Effective prioritisation and management of resources will therefore become increasingly significant in the coming years.

2.3 FINANCIAL CONTEXT

Tunbridge Wells Borough Council’s financial planning must take place within the context of the national economic and public expenditure confines; these are outlined below.

2.3.1 Austerity

Even before the credit crunch was apparent, the Council and the community were under financial pressures from rising inflationary costs - specifically those that are fuel-related such as utilities and petrol - that also led to increased costs in goods. This then turned into negative inflation and a recession, then high inflation and low levels of growth.

The volatility and spiralling decline in financial markets has resulted in unprecedented interventions by national governments – individually and collectively. The UK Government has acted to shore-up a number of banks with a multi-billion pound bail-out package that will continue to have implications in the medium and longer term for public expenditure.

The Council used the two years between 2008 and the Comprehensive Spending Review in October 2010 to take early decisive actions to reduce costs, extract procurement efficiencies and to set the tone for a permanent fiscal climate change. A summary of these and more recent actions is shown below:

Year	Action	Impact
2008	Implement Action Plans across services to reduce direct costs associated with lower usage and attendance.	Savings of £320k.
2008	Fix investments at high rate of 6 per cent.	Additional income of £870k.
2009	In light of the economic downturn, undertake extensive public consultation on services which are most valued and those where users are prepared to pay more.	Over 700 responses which provided a good mandate to confirm spending plans and keep under review the option of raising fees and charges.
2009	Award new Waste Contract.	Savings of £800k per year.
2009	Successfully challenge HMRC in recovering leisure VAT back to 1994.	Additional income of £650k.
2009	Undertake a complete staff restructure.	Savings of over £1m per year.
2009	Greater partnership working.	Savings of £340k per year.
2010	Move away from National Pay bargaining to Local Pay.	Puts the Council's greatest cost under local control.
2010	Seize procurement opportunity of letting new Parks Contract.	Savings of £250k per year.
2011	Revenues and Benefits Partnership.	Savings of £150k per year.
2011	Award new Banking Contract.	18 months’ free banking, saving £130k over five years.
2012	Staff Benefits and Allowances Review	Allowances significantly reduced reflecting modern working requirements and public expectation of service availability.
2013	Insurance Contract	Savings of £25k per year placed in Self Insurance Reserve
2014	Cleaning contract and further staff reductions	Combining of contracts and further reduction in FTEs

2015	Partnership savings	£100k of savings across Mid Kent Services
2015	Return on Property Investments	Returns of 6 per cent plus capital appreciation
2016	In-house Debt Recovery Service	Savings of £130k from setting up Mid Kent Services Debt Recovery Team
2016	Banking and Merchant Services Contact	Savings of £84k over 5 years

The impact on the Council's finances from the downturn was significant, with a loss from budgeted income totalling £1.5m since 2007/08.

Although the national economy has recovered the government has continued its programme of austerity and significantly reduced the level of funding provided to local government. This is likely to continue until Revenue Support Grant comes to an end and is replaced by a share of business rates.

2.3.2 Comprehensive Spending Review 2015 (SR 2015)

The Chancellor of the Exchequer published the Government's Spending Review on 25 November 2015 intending to deliver 12 billion of savings.

The Department for Communities and Local Government (DCLG) was given the greatest percentage reduction in Department Expenditure Limits of 53 per cent as more central government departments received protected status.

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn	% Change
Defence	27.2	27.8	28.5	29.2	30.0	10%
Home Office	10.3	10.7	10.6	10.6	10.6	3%
Health	111.6	115.6	118.7	121.3	124.1	11%
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-7%
Education	53.6	54.4	55.5	56.4	57.1	7%
Business, Innovation & Skills	12.9	13.4	12.3	11.7	11.5	-11%
Justice	6.2	6.5	6.3	5.8	5.6	-10%
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4	-53%

The table below shows that the DCLG Department Expenditure Limits (DEL) which forms the basis for funding Local Government will be reduced by 16.5 per cent for 2016/17.

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4
DCLG Local Government DEL % change		-16.5%	-22.9%	-17.6%	-11.5%
Locally Financed Expenditure	28.8	29.0	31.5	33.6	35.1
Locally Financed Expenditure % change		0.7%	8.6%	6.7%	4.5%

This resulted in the following settlement for this Council.

	2016/17	2017/18	2018/19	2019/20
	£000s	£000s	£000s	£000s
Available Funding				
Revenue Support Grant	834	202	0	-606
Retained Business Rates	2,173	2,216	2,281	2,354
Settlement Funding Assessment	**3,007**	**2,418**	**2,281**	**1,748**

The Government has been clear that its priorities are to reduce the financial deficit, deliver economic growth, both nationally and locally, and reform public services.

Following the BREXIT vote on 23 June 2016 and the subsequent new Prime Minister and Chancellor of the Exchequer, there has been a relaxation of the previous policy of achieving a budget surplus by 2020/21.

2.3.3 Localism Bill

The Bill received Royal Assent on 15 November 2011 and is now an Act of Parliament. The Act provides for a General Power of Competence that allows the Council to do anything that an individual can do, except where specifically prohibited in other legislation, although the Secretary of State has the power to override any council's use of this power as he/she so decides.

No major additional spending implications arising from the Act will impact on the MTFS. The Act does give residents the power to veto excessive Council Tax increases through a local referendum, but the trigger for this still rests with the Secretary of State as it does at present.

2.3.4 New Homes Bonus

The government introduced an incentive to local authorities that increase their Council Tax base. Whereas previously an increase in tax base was essentially offset by a reduction in Formula Grant, the Government intends to match-fund the additional council tax for each new home for the six years after the home is built. This policy was introduced as a 'powerful, permanent and reliable incentive', but these type of growth incentives tend to follow the political polices of the national government and can be rather fickle.

The Council's policy was to be careful in the use of New Homes Bonus (NHB) in the base budget as there will come a time when the grant comes to an end. Although the Council used all NHB in the base budget this was a recent decision to enable the temporary funding of internal resources for the development programme.

Under the scheme the Council will receive 80 per cent of the national average Council Tax for the following six years. There is an additional bonus of £350 for every affordable property or travellers-pitch.

NHB allocations will be fundamentally different from April 2017 following the government's decision to divert funds into adult social care. NHB will only be paid for five years in 2017/18 and for four years thereafter rather than the previous six, this applies retrospectively. There will also be a new baseline below which no NHB payments will be paid, for this Council this will be approxiametly the first 200 homes. A detailed explanation of the changes to the scheme is set out in the Budget 2017/18 report.

If over the medium-term the average number of homes referred to in planning terms are delivered then the estimated NHB receivable under the current and proposed scheme would be as follows:

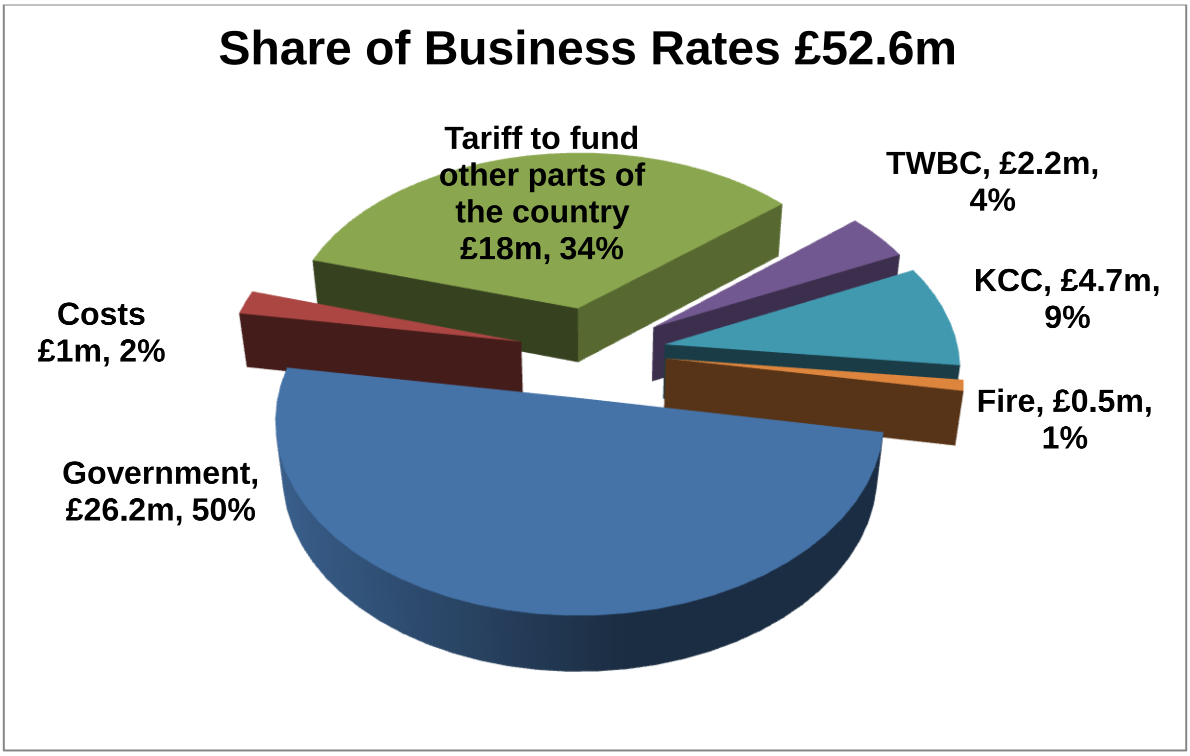
Planning Driver	Homes per year	Less 0.4% Baseline	Net Homes for NHB	NHB scheme Years	Estimated NHB (£)
Core Strategy	300			6	1,800,000
Objectively Assessed Need	648	-200	448	4	1,792,000

The Council should limit the amount of NHB used to fund general revenue expenditure and instead use the funds to reinvest in growth. This strategy will limit the maximum amount of NHB in the base budget to the 2017/18 level of £1.358 million. Any NHB received above this will be transferred into the Capital and Revenue Initiative Reserve to help fund the Capital Programme.

Over time the reliance on NHB in the revenue budget will need to be reduced to limit the exposure to this form of growth incentive scheme coming to an end.

2.3.5 Localisation of Business Rates

Currently this Council collects £52.6m in business rates on behalf of the Government and receives back £2.2m through the grant system. Under the current scheme local government retains 50 per cent of business rates collected which results in KCC receiving 9 per cent and Kent Fire Rescue receiving 1 per cent. The Borough Council would then receive the remaining 40 per cent. However, this Council is not allowed to keep all this 40 per cent which would be £21 million as the Government applies a ‘needs assessment’ so no Council receives more or less than their calculated needs. A ‘tariff adjustment’ is applied to this Council’s share and the proceeds are used to fund other parts of the country. This is illustrated below:



The costs associated with the scheme include a payment to a safety net levy to limit the losses to a council should the business rates in their area fall by more than 7.5 per cent of their base.

In theory, councils will receive a share of any business rate growth (excluding increases due to the multiplier and revaluations which will be kept by the Government) in excess of national growth forecasts. If the business rate tax base in 2013/14 were to exceed the DCLG growth forecasts then this Council would receive 40 per cent of that growth. However, because the Government localised responsibility for past business rate appeals, these are netted off of any growth and are substantial, which limits the returns from delivering growth.

There are many components of the current system which inhibit the ability of the Council to receive a higher return from business rate growth but one which does help is the ability to create a Business Rate Pool with other authorities. This Council is part of the Kent Business Rates Pool which results in a greater share of business rates being retained in Kent and used to reinvest in economic development by only paying for a single safety net.

This Council will continue to be part of the Kent Business Rates Pool all the time this is available.

The MTFS assumes that under the current 50 per cent scheme an additional £100,000 will be generated from net business rates growth.

<u>Retention of 100 per cent of Business Rates</u>

With the ending of Revenue Support Grant the Government announced that by 2020 local government will receive the proceeds of 100 per cent of business rates. It is important to understand that there will still be a system of tariffs and top ups to redistribute funds from economically successful areas such as Tunbridge Wells to other parts of the country. The

Government is consulting on how this 'needs assessment' should work but the primary driver of this government policy is to incentivise growth.

This is an opportunity that this Council needs to focus on in that the ability to deliver business rate growth is fundamental in determining whether the Council will have the funds to provide for local services.

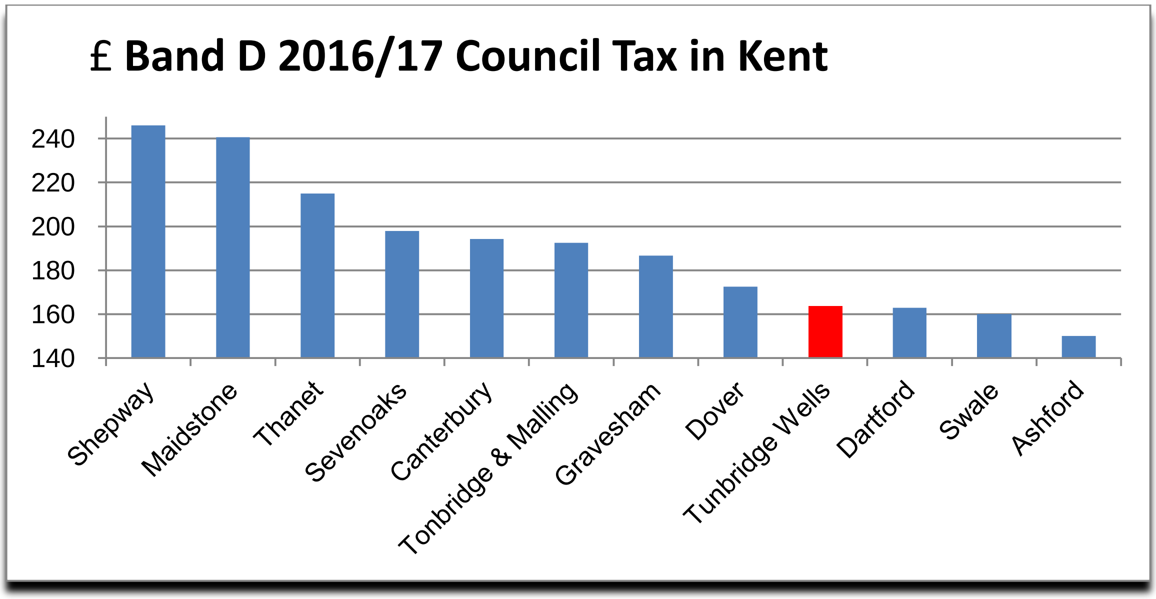
The MTFS assumes that should a 100 per cent scheme be introduced then an additional £200,000 will be generated from net business rates growth. Depending on this Council's appetite for growth then the amount could be far higher.

2.3.6 Tax Increment Financing (TIF)

The Local Growth White Paper provided further information on the introduction of TIF which will allow councils to borrow against future additional uplift within their business rate base. Of more interest to this Council is the opportunity to use TIF to support transport infrastructure schemes and these have been provided in response to the consultation. The introduction of TIF will be subject to proposed changes around the retention of locally-raised business rates.

2.3.7 Council Tax Levels

Council Tax is an important means of helping to fund local services. Despite this Council operating in one of the most expensive parts of the country and providing many discretionary services, the level of Council Tax is relatively low in comparison with other areas. The basic Council Tax rates for Kent are shown below;



From 2016/17 the Government allowed the most efficient authorities such as this Council the ability to increase council tax by either 2 per cent or £5.00 a year, whichever is the greater. The Government assumes that this Council will do so for the rest of this Parliament in their assessment of this Council's available financial resources. This is illustrated below:

Year	Tax Base	Increase £	Increase %	Band D Rate £	Per day £	Total Council Tax £
2016/17	43,538.39	4.98	3.1	163.61	0.45	7,123,316
2017/18	44,448.64	4.98	3.0	168.59	0.46	7,493,596
2018/19	44,893.13	4.98	3.0	173.57	0.48	7,792,101
2019/20	45,342.06	4.98	2.9	178.55	0.49	8,095,825
2020/21	45,795.48	4.98	2.8	183.53	0.50	8,404,844
2021/22	46,253.43	4.98	2.7	188.51	0.52	8,719,234

This strategy assumes that Council Tax will increase by £4.98 a year to 2021/22 which would still be below both the rates charged and total raised from Council Tax at today's levels of other West Kent councils.

The above modelling assumes that the Council Tax base will increase by 1 per cent a year with a collection rate of 99 per cent.

With regard to the treatment of any surplus or deficit arising between Council Tax due (after bad debt provisions) and precepts paid, the Council distributes in full any significant surplus or recovers any deficit in full the following year from the major precepting authorities.

2.3.8 Special Expenses

Since 1974 this Council has used special expenses as a way of ensuring that different areas pay according to the cost of services that are provided, specifically for the benefit of that area. The need for special expenses predominantly relates to the status of Royal Tunbridge Wells not having a town council and because of concurrent services. These are discretionary services provided by parish and town councils within their own area, as well as by the Borough Council in another area. An example would be footway lighting, which in TWBC's area is provided by parish councils in some areas and by TWBC in others (Royal Tunbridge Wells (RTW), and to a lesser extent Southborough, Capel and from 2012/13 the new Parish of Rusthall).

If there were no adjustment to the amount paid to TWBC from areas that receive additional services, for example RTW, people in that area would be receiving those services for only a proportion of the full cost. This would contrast with people in other parts of the Borough who would be paying for the entirety of their own services via parish precepts (i.e. for local recreation grounds), as well as a share of the concurrent services provided via the Borough precept. The parished areas would therefore be paying twice. This situation is known as 'double taxation'. Special expenses are employed in order to correct this.

2.3.9 Urban Parishing

The Local Government and Public Involvement in Health Act 2007 devolved the power to make decisions about the creation of parishes and their electoral arrangements from the Secretary of State to 'principal councils'. In 2011 the Council successfully enabled Rusthall to become a parish.

2.3.10 Tunbridge Wells Property Holdings Limited

The Council established a property company with the purpose of owning and managing some of the Council's property portfolio, particularly those properties being developed as part of the capital programme. On 9 March 2015 Tunbridge Wells Property Holdings Limited was incorporated. The company is wholly owned by the Council and as stated elsewhere in this strategy, property investment, development and yields will be an area of increasing focus over the medium to longer term.

Group accounts have not been prepared as the revenue was immaterial in 2015/16.

2.3.11 Value for Money

The Code of Audit Practice that came into effect on 1 April 2005 puts an emphasis on value for money and overall financial management and performance management. The Code requires auditors to include a statement on how organisations manage their resources to ensure value for money.

In March 2009 a new Value for Money strategy was agreed that identified six key elements to the Council's approach to value for money:

- Ensuring the existence of a sound framework for service delivery;
- Consulting service users and residents to make sure that the Council delivers the right services at the right quality;
- Promoting awareness and monitoring performance;
- Benchmarking our services and performance to ensure that we keep pace with the best performing councils;
- Challenging the way we work and promoting new ways of working; and
- Maximising external investment.

This framework is integral to the delivery of the Five Year Plan, this Medium Term Financial Strategy and service planning.

The 2015 Residents' Survey reported that 67 per cent agreed that the Council delivers value for money, whereas in 2008 only 30 per cent agreed.

2.3.12 Transparency

The Council has embraced the transparency agenda of the Government and has placed all information on procurement, spend, senior managers' salaries, members' allowances, grant payments and creditors' payments on to a single page on the Council's website. The DCLG published a 'Code of Recommended Practice for Local Authorities on Data Transparency' which the Council is using to make published information easier to interpret. This is just the start and further publication of financial information will follow.

2.4 FINANCIAL PROJECTIONS

2.4.1 Summary

The financial projections for the General Fund Revenue budget are based on achieving the strategic financial objectives outlined above and having due regard to the financial context. The approach adopted to compile the five year projections has been to use the current financial year as a base position, inflate this to the price base of the following year and adjust for known variances. This was then measured against the projection of available funding to determine affordability.

The Council faces difficult choices if the strategic objectives are to be achieved, due to increases from inflationary pressures combined with reductions to government grant and volatile income sources. The Council continues to seek efficiency savings through digital transformation, improved procurement and joint working. Although this will go some way to balancing the budget, difficult decisions are required as the Council will need to reduce service provision in some areas to achieve a sustainable budget position.

Where costs do rise and a budget gap occurs then this will be closed by increasing fees and charges under the principle of the 'user pays' rather than the 'Council Tax payer pays'.

One way of mitigating the need to cut services and raise income is for the Council to play a leading role in growing the local economy and actively investing in property, developing assets and generating rental yields.

2.4.2 Sensitivity Analysis

The main assumptions and their impact are shown below:

- Employment costs – there is expected to be an increase of 2 per cent in the gross cost of employing, training, insuring and pension provision of staff per annum. Local pay rates will be determined by the need to recruit and retain staff to deliver the services required with reference to the market rates across the Public and Not for Profit Sector across the South East but excluding London. One per cent variance equates to approximately £140,000 per annum;
- Contracts – the cost of the Council's main contracts is forecast to increase by 4 per cent based on historical experience of those indices which drive the costs within the major contracts. The main contracts are the joint street cleansing and household waste and recycling collection services, along with the parks contract. One per cent variance equates to approximately £40,000 in the total contract costs;
- Utility costs – gas and electricity charges can be rather volatile. The recent award of a four-year contract to LASER Energy Buying Group is expected to add some stability. When combined with energy efficiency measures a 1 per cent increase is forecast. One per cent variance equates to approximately £4,000;
- Business Rates – the Government determines the inflationary increase through changes to the multiplier which tend to follow the Retail Prices Index. Increases of 2 per cent have been included within the future years' budgets. One per cent variance equates to approximately £12,000;
- General income from fees and charges is assumed to increase by 3 per cent per

annum. One per cent variance equates to £93,000 per annum;

- Car park income is assumed to be maintained at the current projected budget and will not be forecast to increase annually. However, it will still be necessary to increase parking charges to manage supply and demand and the costs of operation. One per cent variance equates to approximately £63,000;
- Increases in the Council Tax base – the Council Tax base for years 2016/17 onwards has assumed an increase in Band D properties of 1 per cent, which equates to approximately £73,000;
- The Council Tax has assumed to increase each year by £5.00 (or slightly below due to rounding). One per cent change in the Council Tax equates to £71,000;
- Revenue Support Grant has been included at the level set out in the four-year funding settlement and then ending in 2019/20 when it is replaced by the 100 per cent localisation of Business Rates. If the Government reneges on this, then the Council's financial situation will be completely different with the return of year on year loss of funding rather than the prospect of sharing in growth.

2.4.3 Ten Year Projection and other adjustments

In addition to the above assumptions, a number of financial adjustments have been made for items not within the base budget. These will be subject to the necessary formal decisions being taken, but for modelling purposes they have been estimated as follows:

- No use of earmarked reserves has been assumed in the base budget;
- The cost of Borough elections is in the base budget so an adjustment of £80,000 is made every fourth year to remove the cost of there not being a Borough election to fund;
- The first six years of New Homes Bonus (£1.8 million) is in the base budget;
- The loss of £270,000 of Local Land Charges Income has been assumed. At this stage it is not clear whether the £50,000 of costs will remain the responsibility of the Council;
- The draft Business Rates Revaluation 2017 will add £250,000 to the cost of the Council paying business rates on its own properties. However the Government will introduce transitional arrangement before these come into force to smooth the impact over the next five years; and
- The next triennial valuation of the pension fund will be undertaken in 2016. Following the latest HM Treasury proposals for the LGPS, no additional costs have been allowed for as the scheme is now a career average scheme.

The table below shows the annual overall impact of the above projections and the level of reserves required to balance each year:

Year		**Annual (Surplus) / Deficit**
		£000s
0	**2017/18**	-
1	**2018/19**	753
2	**2019/20**	1,258
3	**2020/21**	445
4	**2021/22**	308
5	**2022/23**	633
6	**2023/24**	481
7	**2024/25**	432
8	**2025/26**	207
9	**2026/27**	64
10	**2027/28**	(74)
NET 10 YEAR (SURPLUS)/ DEFICIT		**4,507**

2.4.4 Strategic Risk Review

The Council has identified ten Strategic Risks following a review facilitated by the Council's insurers to reflect changes to the national government, the economy, staff structure and internal governance. This will provide greater focus on those areas which present the greatest risk to the Council not being able to deliver on its Five Year Plan. Risk owners keep the risks and controls under review with periodic reporting to the Cabinet and attendance at the Audit and Governance Committee.

2.4.5 Digital Transformation

The Council has been, and is, committed to delivering efficiencies. It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council will look for new ways of working smarter and deliver services in a more digitally efficient form which meets the way the public now interact with service providers. The Council has a Digital Services and Transformation Team in place to improve operational delivery and transform the way that services are provided. Details of these projects are reported quarterly to Cabinet and the resulting efficiencies will be incorporated in the budget setting process.

2.4.6 Fees and Charges

The income raised through sales, fees and charges that the Council is able to determine is £4.7m in 2016/17. This is after a reduction in real terms of £1.5m since 2007/08 due to the economic downturn and the recession.

The Council's Budget Initiatives Group produces an annual report on the appropriate level of fees and areas of new charges, to ensure the correct balance is struck between the principle of the user pays and that charges appropriately reflect the cost of the service and legislative parameters. This group has been tasked with improving the Council’s income collection procedures, reducing transaction costs, identification of new income streams and debt management.

There is still a concern over fees and charges which are set by central government at a uniform rate across the whole country regardless of different cost bases or levels of complexity. This Council operates in one of the most expensive parts of the country and has tried to reduce its operating costs through partnership working and efficiencies both within Planning and Licensing functions. However, both of these services require an ever increasing level of subsidy and it is not financially sustainable or fair to all Council Tax payers for this situation to continue.

The Council will continue to make representations to central government that charges for Planning and Licensing are best set locally and should be set at a level that enables full cost recovery.

2.4.7 Pay and Pensions

Pay

Officer Pay is set out in the Pay Policy Statement approved by Full Council each February. Pay will reflect market conditions rather than being increased annually for inflation. A contribution pay scheme provides for movements within grades and is estimated to cost 1.5 per cent of the salary budget.

Pensions

The Council is a member of the statutory Local Government Pension Scheme which is unique amongst the public sector in that the fund uses contributions to acquire assets and investments from which pensions are paid.

A revaluation of the fund is undertaken by the actuary every three years, the most recent was completed in 2016. This set the employers contribution rate for future service at 13.7 per cent and reported a funding level of 84 per cent. The deficit contribution rate for this council was set at £1.15 million. This is a significant improvement over the previous revaluation which is attributable to the scheme moving to a career average scheme, higher state retirement ages and lower than forecast life expectancy.

3 CAPITAL PROGRAMME

3.1 OVERVIEW

The Capital Programme sets out how capital resources are used to achieve the Council's priorities where they are quantifiable. The Council has agreed a number of corporate projects in principle, however budgetary provision is only made when the concepts reach a sufficient stage to enable a business case and costings to be produced.

The Council faces decisions over the use of its reserves in contributing to this agenda and the balance that it wishes to strike between maximising income from asset disposals and using its assets to deliver the Council's priorities.

The Capital Programme is now maintained on a four year rolling basis, with Full Council approving the funding in principle of new additions. Detailed applications are new required from Heads of Service for approval by Cabinet.

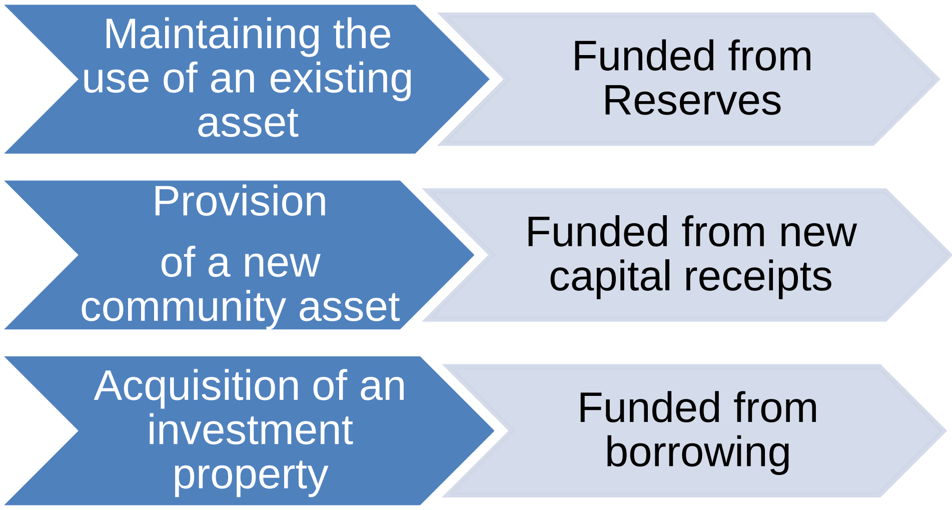
3.2 STRATEGIC FINANCIAL OBJECTIVES

The main strategic objectives of the Capital Programme, which provides the underlying principles for financial planning, can be summarised as follows:

- To maintain a rolling capital programme which remains within the approved sustainability limits and takes into account any decisions or actions which may have a material impact on future years;
- To maintain the Capital Receipts Reserve at no less than £2 million;
- To ensure that capital resources are aligned with the Council's strategic plan and corporate priorities;
- To maximise available resources by actively seeking external funding, use of planning contributions, use of on-street parking funds and disposal of surplus assets for cash or other contributions;
- To meet remaining commitments from the Capital and Revenue Initiatives Reserve so long as this resource can be maintained;
- Prudential borrowing to be undertaken only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs; and
- To engage local residents in the allocation of capital resources.

The level of reserves will decline as they are used to fund the Capital Programme. New schemes will need specifically to consider alternative funding options, taking into account the cost of using capital reserves and the impact of the revenue budget.

The following Capital Funding Strategy will be used when considering new capital schemes:



3.3 FINANCIAL CONTEXT

3.3.1 Financing from Loans

The Council has healthy revenue and capital reserves, but will borrow for strategic purposes to deliver the policy of developing a Property Investment Portfolio (PIP) to provide more secure alternative income streams and to diversify the placing of reserves away from cash deposits for both the objective of diversification of risk and due to the erosion of the value of cash.

The Council is also prepared to borrow money where it is considered to be economically prudent for long term capital projects and assets.

Borrowing for capital purposes is governed by the Prudential Code of Borrowing, introduced in 2004. Local authorities have the freedom to borrow where they determine it to be affordable, sustainable and prudent. This would enable local authorities to fund new borrowing from savings in revenue expenditure or the generation of additional revenue income, for example investment in car parking where this increases income.

3.3.2 Commitments on Planned and Responsive Maintenance

The Council has a significant annual budget requirement for responsive and planned maintenance that, with the Council’s financial position, is not sustainable. The cost of planned maintenance is no longer part of the capital programme and is included within the revenue budget and for 2016/17 the total budget is £525,000. The review of the Council’s assets and the Asset Disposal Scheme is mindful of the need to reduce the cost of maintenance in their determinations.

3.3.3 Disability Discrimination Act

The Act aims to end the discrimination which many disabled people face. This Act gives disabled people rights in the areas of employment, access to facilities and services and buying or renting land. The requirements of the Act were phased in over a nine-year period.

3.3.4 Mercury Emissions

Tunbridge Wells Borough Council operates a crematorium in Royal Tunbridge Wells. The cremators have been updated to meet current mercury abatement targets as required by the Environmental Protection Act (1990).

3.3.5 ICT Enhancements

ICT is essential to the operation of any organisation and local authorities are no exception. With growing emphasis on efficiency savings and the need to minimise the use and ownership of physical assets, greater investment in ICT is required.

The Council's ICT is provided by Mid Kent Services and requests for new hardware and software are determined locally through an IT Commissioning Group. The allocation of funding follows the Council's budget approval process.

3.3.6 Acquisition of Property

At its meeting in April 2009 and also in July 2010, Full Council approved a capital scheme to acquire property, which is planned to provide alternative income streams and diversify the Council's assets away from financial institutions. Cabinet approved the criteria for property required in November 2010 and agents have been instructed to identify suitable properties.

3.3.7 Capital Receipts and Priorities

To fund the Council's programme, it is important to realise capital resources from the disposal of assets but, at the same time, seeing if greater value for money can be achieved by releasing these assets towards the Council's priorities.

The Council's Development Advisory Panel is tasked with reviewing the Council's assets and identifying options for their optimum use. The Council's asset portfolio will also be considered as part of any master planning exercise.

3.4 FINANCIAL PROJECTIONS

Assuming that all capital applications are approved and the existing programme is delivered the funding of the current capital programme is summarised below:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£000s	£000s	£000s	£000s	£000s	£000s
General Fund	3,396	2,210	2,210	2,210	2,210	2,210
Earmarked Reserves	9,341	4,694	4,500	4,300	4,100	4,000
Capital receipts reserve	1,000	1,000	1,000	1,000	1,000	1,000
Capital & grant cont. reserve	1,133	1,004	1,004	1,004	1,004	1,004
Asset acquisitions financed by borrowing	(4,300)	(4,085)	(3,870)	(3,655)	(3,440)	(3,225)
Total Reserves	**10,570**	**4,823**	**4,844**	**4,859**	**4,874**	**4,989**

4 TREASURY MANAGEMENT

4.1 OVERVIEW

Treasury management is an important part of the overall financial management of the Council's affairs.

This Council defines its treasury management activities as:

> 'The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

4.2 TREASURY MANAGEMENT REQUIREMENTS

The Council's treasury management activities are strictly regulated by statutory requirements and in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in November 2009.

The primary requirements of the Code of Practice are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement, a mid-year review report and an annual report covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body. For this Council the delegated body is the Audit and Governance Committee.

4.3 STRATEGIC FINANCIAL OBJECTIVES

The strategic objectives of the Council's treasury management function are outlined below:

- To ensure that the Council at all times has the level of funds available which is necessary for the achievement of its objectives;
- To present annually to Council a Treasury Management Policy Statement stating the policies and objectives of its treasury management activities, and suitable treasury management practices setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities;

- To present annually to Cabinet a Treasury Management Strategy outlining the expected treasury management activity for the duration of the forthcoming Medium Term Financial Strategy;

- To ensure that all investments are undertaken in line with the Council's Treasury Management Strategy, prevailing legislation, regulations and financial procedure rules;

- Where economically prudent, to borrow to finance capital expenditure of a long term nature, in order to match the revenue resource available to support in full the implications of the capital expenditure in terms of both borrowing and running costs;

- To set and monitor annual performance indicators to assess the adequacy of the treasury management function over the year; and

- To seek investment opportunities to maximise investment returns, including the use of external fund managers.

4.4 FINANCIAL CONTEXT

The Council's capital financing and treasury activities are undertaken under the Prudential Code, the basis of which is to ensure that the Council is fully aware of the implications of all its treasury actions. This is demonstrated by Full Council's agreement to a series of prudential indicators that demonstrate that its activities are affordable, prudent and sustainable.

4.5 INVESTMENT STRATEGY

The main principle governing the Council's investment criteria is that priority is given to the security of the principal invested. The yield or return on an investment is important and will always be considered, but the priorities are security followed by liquidity.

None of the Council's funds were at risk as a result of the banking crisis and no investments were made in Icelandic banks. Some issues still remain about the strength of the banking sector which is why the Council has diversified some reserves in to a Property Investment Fund.

4.6 FIVE YEAR INVESTMENT FORECAST

Interest rates are forecast to be very low for some but overall net investment returns are still forecast to be at the same level as at current of £500,000 due to the higher yield from property.

5. RESERVES

5.1 INTRODUCTION

The setting, justification and monitoring of the reserves and balances held is a major part of the financial planning of the local authority.

This section provides an assessment of the level of reserves and balances held by Tunbridge Wells Borough Council based on past experience and an examination of the risks facing the authority. The recommended levels of reserves and balances will need to be kept under constant review.

It is important that the Council has sufficient reserves and balances to enable it not only to maintain its financial standing but also to ensure that the Council can realise its service provision expectations.

Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds to meet known or predicted liabilities. (This is often referred to as earmarked reserves.)

The CIPFA Local Authority Accounting Bulletin 77, Guidance Note on Local Authority Reserves and Balances, gives the following guidance:

Extracts from LAAP 77 relevant to Tunbridge Wells Borough Council

Category of Earmarked Reserves	**Rationale**
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future accounting periods, it is prudent to build up resources in advance
Reserves of trading and business units	Surpluses arising from in-house trading may be retained to cover potential losses in future years, or to finance capital expenditure
Reserves retained for service departmental use	Increasingly authorities have internal protocols that permit year-end underspends at departmental level to be carried forward

For each reserve held by a local authority there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve’s management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance

and adequacy.

The Council's Audit and Governance Committee receives reports on the movement of earmarked reserves in the Statement of Accounts as part of the notes to the Consolidated Balance Sheet.

5.2 LEVEL OF RESERVES

As mentioned above, the Council's reserves can be regarded as general and earmarked reserves but can also be broken down to reflect whether the reserves are Revenue or Capital Reserves. The Council's main reserve, that is designed to cushion the impact of unexpected events/emergencies and help absorb the impact of uneven cash flows, is the General Fund Revenue Balance.

In addition to this balance, the Council also maintains an earmarked reserve for capital and revenue initiatives. This reserve currently stands at £2.4m and will be considered as part of the Reserve Policy detailed above.

In addition to the above, the Council maintains a number of other earmarked reserves specifically set up to meet particular service requirements.

The principal reserves held as at 31 March 2016 are:

General Revenue Reserves	**£000s**	
General Fund Balance	7,951	To cushion the impact of unexpected events/emergencies.
Capital Grants & Contributions Reserve	1,133	Used to manage the receipt of grants which straddle financial years.
Usable Capital Receipts Reserve	1,000	Available to fund capital schemes and act as a minimum capital balance.
Earmarked Revenue Reserves		
Capital & Revenue Initiatives Reserve	2,458	The reserve will be used to support future capital and revenue schemes in accordance with the Council's Corporate and Financial Plan.
Torrington Car Park	40	To carry out essential enhancements to the car park, particularly relating to security.
On-Street Parking Reserve	129	The ring-fenced parking surplus that is used to fund environmental enhancements and transport-related schemes in the Borough.

Local Development Framework	606	A reserve for costs associated with the Local Development Framework due to rescheduling of timeframes and costs.
General Reserve	0	This is used to finance revenue projects which are committed at year end but where expenditure is delayed until the following year.
Section 106 Contributions	35	Developers' contributions to be used to finance capital projects.
Maintenance of Graves	32	Money donated and retained until spent for this purpose.
Maintenance of Garden of Remembrance	18	Money donated and retained until spent for this purpose.
Strategic Plan Reserve	528	Funded by unbudgeted investment interest, this reserve has been created to provide funding for one-off initiatives that contribute to the delivery of the Council's Strategic Plan.
Performance Reward Grant	89	Money received as a result of reaching targets under the first Local Area Agreement and has been set aside to fund individual projects, 50% of which is reserved for capital schemes.
RVP Car Park Maintenance	766	To carry out essential enhancements to the car park, particularly relating to lighting and security.
Carbon Reduction	50	To meet the costs of participating in the Carbon Reduction Commitment Scheme.
Government Grants	300	Contains grants received during the financial year but which cannot be used until after 31 March.
Invest to Save	1,631	To fund upfront costs of initiatives, this will deliver savings over the longer term.
Cultural Reserve	63	To support grant applications and encourage fund-raising to undertake key cultural projects.
Pensions Settlement	927	The amount the Council would have paid for unfunded pensions had the one-off settlement not been made in 2012/13.
Housing Renewal	180	When housing renewal grants are repaid an equivalent contribution is made to this reserve, which will be used to finance future grants.

Insurance	88	Savings made through higher excess thresholds in the new insurance contract are paid into this reserve, and will be used where necessary to finance expenditure that would previously have been recovered from the insurers.
Local Authority Mortgage Scheme Interest	100	An amount equal to the net interest receivable from the mortgage scheme deposit is placed in this reserve to meet possible future defaults.
MMI	50	This reserve is maintained for use in case the Council's share of the overall MMI deficit rises beyond the current estimate.
Land charges refunds	0	This reserve was used to finance the repayment of land charge search fees.
Grant volatility	1,120	This reserve will be used to cushion the impact of any further changes to government grant funding that could not have been anticipated from information available at the time of setting the budget.
ICT MKS	317	All Information technology services are now provided from Maidstone Borough Council via a partnership agreement. This reserve will be used to hold any budget surpluses or fund deficits between financial years. This enables the agreed budgets to be retained although project implementation timetables may flex.
Establishment Reserve	316	This reserve manages the volatility from establishment pressures and changes to the cost of employment such as pay, National Insurance, pension and training.
Parish Enabling	15	This reserve is to be used to assist parish and town councils who wish to take on responsibility of discretionary services or who may face financial difficulties.
Ice Rink	95	This reserve will be used to smooth the impact of inclement weather on the financial success of the Ice Rink and accompanying events.
Digital Transformation	50	This reserve has been created from the ICT MKS Partnership reserve to fund digital transformation projects.
Traveller Protocol	7	This reserve will be used to manage traveller incursions and will be matched by parish and

		town council contributions. The reserve will be used to enable the Borough Council to enforce a Section 77/78 court-ordered eviction or to restore land after the vacation of an unauthorised encampment.
Land Charges Loss of Income	42	This reserve has been created from an over-achievement in land charges income to mitigate against the surplus revenue that will be lost when land charges are centralised.
TOTAL	**20,136**	

5.3 ASSESSING THE ADEQUACY OF RESERVES

Although CIPFA in guidance issued in June 2003 states that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances' it does confirm that 'authorities, on the advice of their finance directors, should make their own judgments on such matters taking into account all relevant local circumstances'.

There are a number of issues that need to be taken into account in assessing the adequacy of the reserves held by an authority:

- What are the strategic, operational and financial risks facing the authority?
- Does the authority comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the authority's budget robust and reasonable?
- Does the authority have adequate financial management and cash flow arrangements?

There are a number of questions an authority can ask to demonstrate if it is managing its financial affairs satisfactorily, for example:

- What is the track record of the authority in its budgetary and financial management?
- What is the authority's record regarding the Council Tax collection?
- What is the authority's capacity to manage in-year budgetary pressures?
- What is the strength of the authority's financial reporting?
- What are the procedures to deal with under- and over-spends during and at the year end?
- In the case of earmarked reserves, will there be the expected calls on the reserves that prompted the setting up of the reserves in the first place?

There is also a need to look at assumptions that have been made in setting the budget, not just for the coming year but also under the Medium Term Financial Strategy (MTFS) for at least the next three years.

The major budgetary assumptions cover:

- Inflation and interest rate projections;
- Estimates and timing of capital receipts;
- The treatment of service demand-led pressures;
- The treatment of planned efficiency savings;
- The financial risks involved in any major funding arrangements; and
- The realisation of budgeted income.

In considering the adequacy of reserves and balances it is important to consider past experience.

It should be noted that £16m was transferred from the Council's Capital and Revenue Initiatives Reserve to the general reserve as at 31 March 2007. Even adjusting for this, it is apparent that there is still an annual reduction in reserves and this is largely due to the capital programme requirements.

There is a need to hold reserves to provide for unforeseen circumstances but also to reflect the Council's future plans. The Council has stated an intention to maintain a balanced budget that only requires the withdrawal from reserves for planned contributions to expenditure on the Council's priorities, thus the Reserve Policy must reflect the optimum use of these reserves and action is required to create a sustainable annual budget.

5.4 DETERMINING THE APPROPRIATE LEVEL OF RESERVES

The Council's Section 151 Officer considers that the Council has adequate systems of internal control and that the financial assumptions underpinning the Council's budget are robust and reasonable.

The Council has worked with Zurich on a corporate risk assessment for the authority and this will be used in consideration of a minimum level of reserves. At this time, the Section 151 Officer has considered the net operating expenditure and the reliance on income from Royal Victoria Place. Based on this analysis, a minimum level of £2m is required.

With regard to capital, the Council owns a large number of properties and considering the responsibility to keep these operational, a minimum level of £2m is required.

5.5 OPPORTUNITY COST OF HOLDING RESERVES

Having set a minimum level and desirable/target level for reserves, the opportunity cost of holding balances above this level needs to be considered as all balances held in reserves are invested. Therefore, in measuring any opportunity cost of holding these reserves, account needs to be taken of the investment income. The opportunity cost of holding these reserves is therefore a judgment as to whether the worth of expenditure foregone is worth more than the income generated.

With such a high level of reserves, the Council has been overly reliant on the full level of investment interest to finance day to day service expenditure and has taken action to reduce this reliance. This has worked and the target of net interest in the base budget £500,000 has been achieved. Any surplus interest income will be used for priority projects or transferred to reserves.

5.6 REPORTING FRAMEWORK

It is not only important to review the level of balances and reserves on an annual basis, it is also essential to monitor their level throughout the year. The monitoring of reserves will be incorporated into the Council's financial monitoring programme.

6. CONCLUSION

The past five years have seen probably the most dramatic financial turmoil of modern times. Following the near collapse of the banking sector the Bank of England invested billions of pounds in quantitative easing to stimulate the economy but growth remained fragile. With interest rates already at record lows of 0.5 per cent forecasters were consistently wrong in predicting when the next increase would occur. The movement was actually a reduction to 0.25 per cent in August 2016.

The Coalition Government elected in 2010 set a course of reducing the national deficit which came to be known as austerity. Up until this point government grant had always increased albeit for this Council very modestly with an extra £35,000 against a revenue budget of £65 million. This is against a backdrop of constantly increasing demands and a growing population. However, for the first time, the Government decided to start reducing the amount of grant to support local services. In 2010 this Council received £4.5 million in revenue support grant and in 2018/19 this will disappear completely.

In 2015 a new government was elected which set out financial plans to continue the period of austerity and for the Government to set a balanced budget by 2020/21. This would require further cuts to public expenditure but with a greater number of central government departments being protected it would be left to local government to shoulder the greatest burden of funding reductions. The Secretary of State for Local Government announced that local government as a sector will retain 100 per cent of Business Rate income by 2020 as an incentive to deliver growth and break the reliance on central government funding.

Then in 2016 the UK voted to leave the European Union and following this result a new Prime Minister and Chancellor of the Exchequer came to power and the tone of austerity was softened and the target of the Government balancing its budget was dropped.

However, during the turmoil of the past five years the current MTFS has successfully weathered these events and has delivered:

- A balanced budget without the use of general reserves;
- No major reductions to core services;
- Delivered over £15 million of capital investment;
- Cash reserves have reduced by £548,000 to £20.1 million;
- The value of property assets has increased by £29 million to £102 million;
- Six consecutive completely clean Annual Audit Letters; and
- Public satisfaction that the Council delivers value for money has increased from 30 per cent (in 2008) to 67 per cent.

This new MTFS sets the approach for the next five years which may be no less dramatic as the previous period but in an era of no central government financial support for local services one thing that is perfectly clear is that the Council must deliver economic growth.

This is the one way that the existing range and level of services currently valued by residents can be sufficiently resourced in the future. Growth will need to exceed current levels as the population of the Borough continues to grow, along with expectations and demands on the infrastructure.

This Borough is in a great place to benefit from growth with many of the sound fundamentals already in place to make this such as an attractive destination for new house buyers, business looking to relocate and existing ones expanding. The Government has put in place two important financial incentives to access the funds needed to provide local services in the future which are:

- New Homes Bonus to reward new housing building; and

- 100 per cent localisation of Business Rates.

The next five years could well be the most important in the Borough’s history and success will depend on the ability to deliver sustainable growth.