Rother
District Council

MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2021/22

CONTENTS

CHAPTER ONE – INTRODUCTION AND CONTEXT

What is a Medium Term Financial Strategy?

1. This document outlines the Council's approach to strategic financial management over the next five years including council tax levels. In particular it relates the use of financial resources to the meeting of the aims of the Corporate Plan which is Rother's response to the priorities detailed in the multi-agency Community Strategy. The Corporate Plan was last reviewed in 2014 following a period of consultation with key stakeholders. This Plan gives the Medium Term Financial Strategy (MTFS) a sound policy basis to work from. The financial landscape for public finances continues to be very challenging and this strategy reflects the reality in which the Council needs to operate. This strategy concentrates on the factors affecting where our money comes from and how it is invested in the delivery of services to our residents.

What does a MTFS do?

2. The MTFS balances the Council's commitment to a regime of financial rigour, prudence and discipline which is important in this time of continued fiscal tightening, with the need to facilitate innovation and provide the means to deliver the financial resources to meet the aspirations of the Council. An integrated view of the whole of the Council's finances is covered in the strategy including the General Fund Revenue Account, Reserves and Capital Programme and its funding. The strategy considers these in the context of:

    (i) the key policy objectives over the next five years;
    (ii) financial forecasts for the next five years;
    (iii) the risks facing the Council and how these will be managed; and
    (iv) key developments in the external environment and their impact.

What does a MTFS not do?

3. The MTFS is not intended to lead policy development for the Council. It is a reflection in financial terms of the Corporate Plan of the Council and sets the financial framework for it to work within to achieve those aspirations. It may be that the strategy will need to be amended during its lifetime due to changes in statutory duties or other commitments that could not have been anticipated.

How does it fit in with the decision making process?

4. The table below outlines who are the key decision takers within the MTFS framework:

BODY	ROLES AND RESPONSIBILITIES
Council	• Approves MTFS • Approves budget strategy and sets council tax for the year • Approves the Council Tax base • Approves the Financial Procedure Rules and Procurement Procedure Rules • Approves the Treasury Management Strategy
Cabinet	• Determines vision and priorities for the Council • Recommends the MTFS to Council for approval • Recommends the budget to the Council • Recommends the Treasury Management Policies and Strategy to Council • Approves virement requests over £50,000 • Monitors progress against the budget • Recommends year end reserve adjustments
Overview and Scrutiny Committee	• Recommends budget amendments to Cabinet • Reviews financial performance in year
Audit Committee	• Approves final accounts and receives External Auditors report
Strategic Management Team	• Advises on the identification of priorities • Contributes to the MTFS • Monitors progress against budget • Promotes strong financial management within the Council • Considers growth bids for both revenue and capital • Considers requests to carry forward monies • Monitors progress against the Value For Money Strategy • Approve virements up to £50,000
Service Managers	• To submit requests for new monies in accordance with the budget timescale • To manage income and expenditure against the approved budget and agree monthly monitoring returns with their assigned Service Accountant • To work within Financial and Procurement Procedure Rules delegations • Approve virements up to £5,000
Internal Audit	• Independently monitors controls and procedures to minimise risk, fraud and corruption and enhance value for money

5. The table below shows how the MTFS fits in with the key resource related plans and strategies the Council has:

<table>
<tr><th colspan="4">MEDIUM TERM FINANCIAL STRATEGY</th></tr>
<tr><td rowspan="2">Policy impact upon capital and service planning, financial management and budget strategy</td><td>Capital and Asset Related Strategies
• Asset Management Plan
• Capital Strategy</td><td>Financial Management
• Audit Plan
• Risk Management
• Procurement Strategy
• Procedure Rules
• Reserve Policy
• Rother 20/20 Plan</td><td rowspan="2">External Issues capital and service planning; financial management and budget strategy</td></tr>
<tr><td>Service Related Plans
• Performance Plans
• Service related Plans and Strategies</td><td>Budget Strategy
• Annual Budget
• Treasury Management
• Strategic Plan</td></tr>
</table>

Who needs to be aware of the MTFS?

6. Primarily the MTFS is an internal Council document to help both Members and Officers manage the Council's finances within a clear framework.

Corporate Context

7. Despite the financial constraints facing all local government, Rother District Council (RDC) continues to perform well against its targets. Maintaining this level of performance will increasingly be difficult as funding continues to be withdrawn by the Government but we will continue to remain focused on achieving our stated goals.

8. Rother District will be recognised for its high quality of life, as a place where there is a strong emphasis on good neighbourliness. This will be achieved by continuing to support and further encourage the development of vibrant, strong, safe and inclusive communities. We will focus on the delivery of four proposed core aims:

   (i) An Efficient, Flexible and Effective Council
   (ii) Sustainable Economic Prosperity
   (iii) Stronger, Safer Communities
   (iv) A Quality Physical Environment

9. The Corporate Plan sets out the key projects and deliverables up to 2021. In excess of 30 key projects over and above the day to day delivery of services have been identified which will deliver investment and change in the district.

Monitoring Arrangements

10. The MTFS is reviewed twice a year by Cabinet, being updated for changes in assumptions as more accurate information is known. Changes in policy through the various strategy reviews are also reflected in the strategy, together with information arising from preparation of the annual budget.

CHAPTER TWO – GENERAL FUND REVENUE ACCOUNT

11. The General Fund Revenue Account is concerned with the day to day running of Council services. The gross revenue spend for 2016/17 is estimated to be £48.9m and after allowing for government grants, fees and charges and other income, the net budget is £11.86m. The following table provides a summary of the net Revenue budget:

	£	£
Service Expenditure		
Cultural and Related Services		2,555,220
Environmental Services		4,394,180
Planning and Development Services		1,690,250
Highways and Transport Services		(592,140)
Housing Services		1,054,110
Corporate and Democratic Core		2,929,220
Central Services		1,140,870
Other Operating Expenditure and Income		(1,311,390)
Revenue Budget - including use of Reserves		**11,860,320**
Funded By:		
Collection Fund estimated (surplus)/deficit 14/15		
Business Rates	326,240	
Council Tax	(155,000)	171,240
New Homes Bonus		(1,655,010)
Revenue Support Grant		(1,073,470)
Business Rate Retention		(2,540,050)
Council Tax		(6,048,480)
Special Expenses		(714,550)
Total Funding		**(11,860,320)**

Financial Objectives

12. The main financial objectives of the General Fund Revenue Account can be summarised as follows:

- To achieve and maintain a balanced General Fund such that ongoing expenditure matches income from Council Tax, fees and charges, grant income with reserves only being used to fund one off expenditure.
- To reduce the reliance on New Homes Bonus grant within the Revenue Budget.
- To ensure sufficient financial resources are available to achieve the Corporate Plan[1] objectives.
- Maintaining adequate reserves with a General Fund Balance and MTFS Reserve of no less than 10% of net revenue and capital spend for the financial year. In year cash flow however requires funds of up to £5m to be available to meet day to day demands.

[1] Corporate Plan insert link

- Ensuring VFM is a key consideration in all investment decisions and proposed service improvements.
- To keep under review spending and service performance in the context of achieving value for money.
- To maximise the return on assets[2] through matching operational needs to accommodation needs, generating financial returns from investment or non-operational properties in excess of that achievable by cash investments.
- To work in partnership with other public, private or voluntary organisations with a view to reducing costs or improving productivity.
- To act as lead authority for partnerships where appropriate and maintain a neutral cash flow from the resulting transactions.

Financial Context

The Economy

13. At the time of writing this strategy, the UK economy is in a state of uncertainty following the leave decision of the referendum on membership of the European Union. Government support for the economy means that there continues to be severe reductions in funding across the public sector and this looks set to continue for a number of years in order to reduce the level of government debt. This strategy is also written in the context of a 33% reduction in the number of staff through a corporate restructure of the Council and consequent redundancies in 2013. Further redundancies cannot be ruled out given the Government programme of public spending reductions is set to continue.

Local Government Settlement

14. The 2016/17 local government settlement gave details of the grant funding for the four years to 2019/20. This is analysed in the table below:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£	**£**	**£**	**£**	**£**	**£**
Revenue Support Grant	1,073,470	449,570	72,500	-	-	-
Rural services delivery grant	61,020	49,271	37,901	49,271	-	-
Transition Grant	71,641	71,383	-	-	-	-
Total Government Grant	**1,206,131**	**570,224**	**110,401**	**49,271**	**0**	**0**

15. The table shows that the core Revenue Support Grant (RSG) will have stopped by 2019/20. In 2015/16 RSG totalled £1.8m demonstrating the scale of the funding reduction for Rother. The Government also announced in order to ensure receipt of the above amounts the Council would also need to commit to an efficiency plan by October 2016. This is discussed in greater detail in paragraph 42 of this strategy.

[2] Asset Management Plan insert link

New Homes Bonus

16. New Homes Bonus (NHB) was introduced in 2011 and supports Government policy on meeting the future housing needs of the country. The grant effectively rewards Councils for the development of new homes in their areas. It is only payable on completion of new properties, not on planning approvals. Additional sums are paid for the delivery of new affordable homes. For 2016/17 the Council will receive £1.6m in NHB grant, of which £1m is used to support the revenue budget. The grant is currently paid on a rolling six year basis and therefore if development reduces or stops the funding will decline. The Government are currently reviewing NHB following a consultation in early 2016. The main proposals suggest the following changes:

   a. Reducing the number of years the grant is paid from six to four years, including for prior years grants.
   b. Withholding or reducing the grant in areas where a local plan hasn't been produced.
   c. Reducing the grant where planning applications for housing are allowed on appeal.
   d. Removing deadweight; introducing a baseline increase after which grant is payable.

17. Estimates of additional NHB have been calculated based on the assumptions contained in the Council's Local Plan. The actual amount of grant received is influenced by the council tax banding of the new property, i.e. the lower the band the lower the reward grant. At this stage the mix of properties is undetermined and therefore an accurate assessment of the total reward grant is not possible. The other critical factor is the timing of delivery of the properties, how likely are the estimates to be achieved. Given the level of uncertainty it is prudent in terms of financial planning to scale back the amount of grant received to allow for delay and Council Tax banding by up to 50%. The table below shows the estimated incremental change in grant until 2019/20. It has also been assumed the Government reduce the period of the grant from six years to four as per the consultation.

Year	2016/17	2017/18	2018/19	2019/20
	£000	**£000**	**£000**	**£000**
2011/12	385			
2012/13	225			
2013/14	160			
2014/15	255	255		
2015/16	296	296	296	
2016/17	333	333	333	333
2017/18 estimate		227	227	227
2018/19 estimate			227	227
2019/20 estimate				227
Total	**1,654**	**1,111**	**1,083**	**1,014**
Incremental change		-543	-28	-69

18. It is reasonably certain to expect that NHB will decline and with proposed changes to Business Rate Retention scheme (discussed below) it is likely to

end altogether. This as a consequence adds to the financial pressures on the Council to deliver savings and increased income by up to £1m.

Business Rate Retention

19. The Business Rate baseline assessment set by the Government for 2016/17 has been set at £2.17m. Over the four years of the settlement this is estimated to rise to £2.36m, an increase of £200,000. However, in reality it is expected that the actual income the Council achieves from Business Rates will be higher than the baseline over this period. The estimate amount of Business Rates income for 2016/17 shows that of the £17m collectable in the Rother area, the Council's share is expected to be £2.54m. This is calculated as follows:

	£'000
Total Estimated 2016/17 Business Rate Income	**16,614**
50% Share to Government	(8,307)
40% Share to Rother	(6,646)
9% to East Sussex County Council	(1,495)
1% to East Sussex Fire Authority	(166)

	£'000
Rother's 40% Share of Business Rate income from above	(6,646)
Section 31 Grants (SBRR, Government Reliefs)	(712)
Cost of collection allowance	(146)
Estimated Levy Payment to Business Rate Pool	366
Tariff payment to Government	4,598
Net Business Rates Retained	**(2,540)**

20. The Council's ability to grow our Business Rate income over the next five years is very much dependent on commercial developments in North East Bexhill and bringing proposals forward for the regeneration of Beeching Road.

21. North East Bexhill is expected to deliver approximately 50,000 square metres of business space over the next 10 years. Using rental value as a proxy for rateable value and using rental values similar to that achieved by the Council through its Elva Way development, this would equate to additional retained rates of £260,000 by the time construction is completed. Some development has been achieved but it is too early to know the likely phasing of the development over the 10 year construction period.

22. Given the uncertainty of the timing of development, the financial forecast assumes that growth in business rate income will reflect the Government forecast growth. This suggests that broadly income will rise by 2% per annum.

Business Rate Revaluation 2017

23. There will be a national revaluation of business premises to come into effect from April 2017. Based on experiences from 2005 and 2010 revaluations it is

expected that there will be a significant number and value of appeals to the Valuation Office Agency. The Council is very likely to need to substantially increase its financial provision for appeals. A Business Rate equalisation reserve has been established and currently stands at £0.79m and a planned further contribution of £0.4m will be made in 2016/17. The Council is however expecting that further moneys will need to be set aside.

100% retention of Business Rates

24. At the time of writing this Strategy, the Government are consulting on proposals to allow local government to retain 100% of business rate income locally. In total the Council collects in the order of £17m of business rate income net of reliefs and exemptions. Irrespective of the changes that are finally agreed it is envisaged that the existing system of tariffs and safety nets will still be in place in some form and that the level of income retained from business rates will be broadly similar to the current scheme.

Council Tax Policy and Projections

25. Following a four year Council Tax freeze, Members agreed an increase of 1.94% for 2016/17 to £164.32. Late in the consultation process for the local government settlement, the Government announced further flexibility to increase council tax by up to 2% or £5 which was the greater. For financial planning purposes it has been assumed that council tax will increase at the rate of £5 per annum in order to maximise the increase in revenue.

Other Financial Risks

Income

Fees and Charges

26. The generation of income from fees and charges is an essential element of the Council's revenue budget. The overall impact of fees and charges is substantially affected by legislation with many chargeable services prevented from recovering more than their costs. This is understandable in situations where the Council has a monopoly. The objective therefore is where services are chargeable (and the level of charges is determined by the Council) then they should achieve break-even. Opportunities will also be explored for premium pricing for discretionary services where the Council is able to deliver variable levels of service.

Collection of Council Tax and Business Rates

27. In spite of the economic conditions, collection rates for council tax and business rates have historically been good at around 98.5% in year. From April 2016, the Council along with the majority of councils in East Sussex introduced a new Council Tax Reduction Scheme which saw households who previously received 100% relief from paying council tax having to pay a minimum of 20% of their annual charge. The first quarter of 2016/17 saw collection rates holding up, but there is a risk that households may increasingly find it difficult to pay.

Expenditure

Corporate Plan

28. The Corporate Plan contains in excess of 30 projects some of which rely on revenue funding which will be met from existing staff and other resources supplemented where necessary from the earmarked reserve for corporate plan projects. The estimated cost of those projects requiring revenue funding is in excess of £19m.

Major Contracts

Waste

29. The Council entered into a 10 year joint waste collection and street cleansing contract with three other East Sussex Councils. For Rother this new contract started in April 2014 one year behind the other partner Councils. Across the partnership significant savings were achieved through the contract procurement process (£3m per annum) and these have been reflected in the each Councils revenue budgets.

30. Under the contract, the recyclate collected is disposed of by the contractor and they retain any income they achieve. It was expected that in excess of £2m annually of income could be generated across East Sussex. The start of the contract however coincided with the collapse of the market for these materials and as a consequence the contractor is under significant financial pressure. Should the contract become unviable to continue, it will necessitate a new procurement process with the likely outcome a considerable price increase if the current specification is to be maintained.

31. In addition the Council along with its partner district and borough councils, are in discussion with the Waste Disposal Authority, East Sussex County Council, regarding the performance of the current contract and the higher than expected tonnage of residual waste and lower recycling tonnages. A number of measures have been put in place but income from recycling credits (£0.57m 2016/17) may fall if performance isn’t improved.

Grounds Maintenance

32. The Council jointly procured a new 10 year grounds maintenance contract with Hastings Borough Council and AmicusHorizon Housing Association. This new contract commenced in December 2012 and delivered annual savings of over £200,000 to the Council. At this stage therefore it is not anticipated that further cost savings can be achieved unless parts of the service can be devolved or stopped.

Leisure

33. The Council achieved a nil cost leisure services contract in April 2016. This delivered annual savings in excess of £300,000 per annum. The Corporate Plan includes a proposal for a new combined leisure and swimming centre in Bexhill-on-Sea. Initial estimates suggest a gross cost of circa £18m. It is expected that a new facility will enable the service provider to deliver an income stream for the Council. The project is in the early stages of

development and therefore no reliance on any income generation has been incorporated into the Councils financial plans.

Housing and Benefits

34. Demand for Housing related services remains high in line with the poor economic conditions. Additionally with the recent improvement in the housing market access to low cost rented accommodation in Rother is increasingly difficult as landlords are selling their properties. To manage the duty the Council has to families in housing need, we continue to develop its partnerships with private sector landlords and our Registered Providers (RPs) to mitigate the level of demand. There is likely to be an increase in temporary accommodation requirements which will have a financial impact on the Council.

35. The changes to Housing Benefits and the implementation of Universal Credit are likely to further impact on these services over the next two to four years.

Workforce Plan

36. The adopted workforce plan[3] deals with the equipping and skilling the Council workforce for the future. Focus is on improving our current resources, developing managers (particularly in developing partnerships) and making sure the right resources are directed to the right areas. Investment is being made in upgrading skills of people and has clear links to improving future service delivery within a reduced workforce. Existing training and operational budgets will contain most costs but additional one-off investment may be required.

Asset Management Plan

37. The Asset Management Plan[4] has a direct financial impact on the revenue budget. The plan shows:

- a) the strategic direction of asset holding, acquisition and disposal which will impact on revenue income;
- b) how we manage income generating assets; and
- c) how we are to reduce operating costs, particularly for administrative buildings.

36. The Corporate Plan identifies a number of asset acquisitions that will be required in order to achieve the Councils goals. Maximising revenue returns and reducing costs clearly are essential to contribute to the need to reduce the overall cost of the Council and balance the revenue budget.

Forecasts

37. So what does all this mean in terms of the Council’s finances? Taking the information available through the various plans and strategies, the likely levels of government support and council tax revenues, we can build a picture of the Council’s General Fund over the next five years. An initial assessment is calculated which represents the central or most likely scenario, and this will

[3] Insert link to workforce plan
[4] Insert link to Asset Management Plan

form the basis of financial planning decisions and Council Tax policy over the next five years. This is shown at Appendix 1. However in addition, there will be additional models developed that take the major risk areas, such as the level of business rate income, and model those over various scenarios to look at the impact on the Council.

38. This helps the Council formulate its contingency plans in the event of a major deviation from the expected financial state of the Council. It is not possible to publish within this document all the possible scenarios or the plans to deal with them should they come to fruition.

39. Whilst only an estimate, the following graph shows the scale of the challenge that the Council expects to face over the next five years if savings are not achieved:

	2017/18	2018/19	2019/20	2020/21	2021/22	TOTAL
	£	£	£	£	£	£
FUNDING GAP	**338,170**	**738,470**	**731,210**	**835,210**	**1,023,770**	**3,666,830**

Measures to Mitigate the Financial Pressures - Sustainability and Efficiency Programme

42. Since 2011/12, the Council has delivered in excess of £4m of savings in order to respond to the severe cut in government funding and the poor economic conditions. These reductions were delivered through the Council's service resetting programme. The forecast revenue budget for 2017/18 requires the delivery of £0.3m of identified expenditure reductions and achieving additional income. From 2018/19 to 2021/22 a further £1.5m of savings are estimated.

43. The Council has developed its response to the latest funding cuts and other financial challenges through its Rother 2020 plan[5] which supports this strategy. The three year Plan forms the basis of the Council's sustainability and efficiency programme and describes how the Council will be operating by 2020. There are eight workstreams within the plan, all of which are underway. Five of have financial targets for either delivering savings or additional income over the next three years as detailed below:

Workstream	Saving/Income Target (£'m)
Establish Value	N/A
Prioritisation of Services	£0.3m
Managing Demand	£0.3m
Lean Services	£0.5m
Increased income	£0.6m
Organisational Form	£0.1m
ICT/Data	N/A
Engage and communicate	N/A
Total	**£1.8m**

[5] Insert link to Rother 20/20 plan

45. **Establish Value** – the Rother 2020 plan details the values that should be applied to the services provided by the Council. In this way we can assess how each service contributes to those values.

46. **Prioritisation of services** – the assessment of the services contribution to those values is weighted and scored. The scoring then determines an initial view on the priority of each service which can then provide the rationale for the allocation of the Council's resources, be they financial, staffing or other assets. Ultimately this will determine which services may have to cease in order that the Council remains able to balance its revenue budget.

47. **Managing demand** – reducing demand for Council services is key to releasing resources. It is necessary to separately identify the drivers of demand, particularly where it is due to service failure (e.g. missed collection of refuse).

48. **Lean services** – the Council needs to ensure it operates in the most efficient and effective way. Maximising the ability of customers to self-help will be a key part of this work in order that the Council can dedicate its staffing resources to helping the most vulnerable members of our community.

49. **Increased income** – the generation of additional income to replace the lost government funding is essential to protect as many services as possible. This includes return on its land and property assets, ensuring the delivery of new business and residential property through planning to achieve increased taxation and ensuring fees and charges are increased with regard to the elasticity of demand for chargeable services.

50. **Organisational form** – how the Council is organised and how services are delivered will be emerge from the above work. One solution will not fit all services and it may be that there will be a mix of direct service delivery, partnerships with public bodies, private sector and voluntary sector organisations.

51. **ICT/Data** – to support the changes that flow from the above work will require investment in ICT. To achieve a lean organisation will again require investment in our business technology to automate and simplify our processes. How we manage and share data will also ensure services are delivered efficiently and reduce the risk of service failure.

52. **Engage and communicate** – changes to or reductions in the range of services delivered will need to be communicated with the public, business and key partners. Before decisions are made their views must be considered in order to avoid unintentional consequences.

Procurement

53. The Government see great opportunities to create savings in the public sector through better procurement. To respond to this challenge the Council is part of the East Sussex procurement hub which has helped deliver best practice and best deals across the area. The Council has already achieved significant procurement savings by working with other authorities on waste and grounds maintenance plus a myriad of smaller value contracts.

CHAPTER THREE – CAPITAL STRATEGY

Objectives

54. The Council's Capital Strategy shows the investment priorities of the Council. The MTFS aims

- To ensure the Council has a fully funded programme
- To align capital resources to corporate plan priority projects.
- To make provision for service specific strategies such as housing and regeneration and cross service strategies such as business improvement.
- To achieve a funded programme through prudential borrowing where appropriate and affordable.
- To seek appropriate external funding sources to meet its aspirations but will not seek funding without a clear reason to do so.
- To ensure surplus assets are disposed of to create new investment funding

National Context

55. The Department for Communities and Local Government (DCLG) sets the policy direction of Local Government. Clearly the priority throughout Government is to reduce public spending to manage the budget deficit and this is reflected in the reduced availability of capital grant funding for local government. The DCLG policies currently focus on encouraging growth and investment through development of business and residential properties through the private sector, primarily through the relaxation of planning controls and through the encouragement of communities to decide what they want in their areas through neighbourhood plans.

56. The Council is a member of the 3 Southern Counties partnership that comprises all County Councils, District and Borough Councils from East Sussex, West Sussex and Surrey. The partnership is seeking a devolution deal with the Government to secure substantial additional funding to enable the accelerated development of new housing, new/improved infrastructure and to improve the skills of people in the region. The outcome of the bid will be known in late 2016/17.

Local Context

57. The following describes the investment pressures the Council faces over the medium term and the associated funding issues these bring. Many of the priorities for investment derive from the Council's Corporate Plan. Due to the financial constraints on the Council many of these will require external financing and the dedication of internal staff resources to ensure they are delivered.

Approved Capital Programme

58. The approved Capital Programme is shown at Appendix 2 and includes a very limited number of schemes, community grants, De La Warr Pavilion capital contribution and disabled facility grants (DFGs).

59. DFGs are funded by combination of Government grant and the Council's own resources. Government funding is now directed through the County Council as part of East Sussex Better Together, joint arrangements with the health service. Currently there is agreement for funding to be passported through to the Districts and Boroughs.

60. If the Government fails to adequately support this statutory service then additional costs will fall to the Council. However for 2016/17 funding increased substantially from £0.7m to £1.2m. The government are encouraging a creative approach to the use of the funding to secure the best outcomes for residents. Work is ongoing across East Sussex in response to this. However no funding has been confirmed post 2016/17.

Emerging Spending Pressures

Economic Regeneration

61. The objectives for the Council in planning for the future is to enhance spend across the district by stimulating more housing, employment and wealth generation. This will support the Council's strategic objectives for the district. To achieve this will require substantial investment in the following areas. Funding is not in place for these schemes at present and will be determined as each project progresses.

Housing

62. The most recent Housing Need Survey undertaken (2005) established a need for over 250 new affordable homes each year. This survey will be renewed during the latter part of 2016. The Council's local plan envisages an annualised delivery of 335 new homes (all tenures) each year. At this level of delivery it is extremely unlikely that the Council will achieve the number of affordable homes required, especially affordable rented properties. In 2015/16 the Council saw the best performance in recent years and saw 107 new affordable homes delivered. The projection for 2016/17 is 81 new affordable homes.

63. Previously funding for affordable homes primarily came from the Homes and Communities Agency (HCA) following negotiations formalised in section 106 Legal Agreements with developers laid out in the Councils local plan. For the funding round 2016 to 2021, the HCA announced that there would be no grant funding for affordable rented homes with the focus now on home ownership. This includes options such as rent to buy, shared ownership and starter homes being sold at 80% of market value. This policy constrains the Council's ability to deliver affordable rented property to through our Registered Social Landlord partners and will increase the time people wait on the housing register (currently 1,300) for social housing.

64. North East Bexhill is expecting to see the development of up to 2,000 new homes over the next ten years and therefore should make a major contribution to the delivery of affordable homes, albeit without affordable rented homes. The Council is investigating whether to take a proactive position in the housing market through a special purpose vehicle, such as a Housing Investment Company. This would have two main benefits, ensuring housing continues to be delivered in the current uncertain economic situation and returning an income to the Council's general fund. There is risk of capital

loss however if demand for housing falls and/or the housing market collapses locally.

Bexhill including North East Bexhill

45. Ensuring the future viability and vitality of Bexhill is identified in the Council's Corporate Plan as one of its executive priorities. The main issues facing the town centre are identified in studies undertaken for the Council by GL Hearn & Partners, most recently in 2013, to inform the Local Plan Core Strategy. These are published on Council's website.

46. The town centre is predominately made up of small unit shops, with a relative shortage of larger units that would suit national multiple retailers. The pattern of ownership is dominated by private investors, many of whom are absent and do not have the commitment to invest. These properties are managed by agents whose sole role is to generate a rental return. Importantly, the absence of institutional investors means that there is no investment-led strategy to drive change.

47. In addition to housing, North East Bexhill should see the delivery of some 50,000 square metres of commercial space. This is being led by the local regeneration company, Sea Change Sussex, while the Council is also investigating whether to take a proactive position in the commercial market. This would have two main benefits, ensuring the delivery of commercial space to improve the local economic situation through job creation and returning an income to the Council's General Fund. There is risk of capital loss however if demand for commercial accommodation does not materialise and a loss of income/ increased costs if space cannot be let.

Beeching Road, Bexhill

48. The Council owns the freehold of the Beeching Road industrial estate, created from former railway sidings following the rail closures of the late 1960s. The majority of the industrial estate is held on ground leases of 99 years or 125 years granted in the late 1960s / early 1970s. In some cases these plots have been further sublet, creating several tenancy layers. In total, the entire Beeching Road estate currently produces approximately £340,000 per annum in rental income.

49. The Council is now considering its longer-term options for the management and development of Beeching Road. It could meet the Council's strategic planning requirements for retail provision, generate additional employment opportunities and improve the return on value of the Council's land assets.

50. Many of the properties at the estate were built around 40 years ago and some are now reaching the end of their economic life. As these properties age their value will decline relative to more modern competition available elsewhere, limiting rental and capital growth and diminishing returns for investors. Capital investment will be required to either refurbish or redevelop sites to meet current occupier requirements and stimulate demand, and this can be driven by having a strategic, deliverable plan for the future development of this area. There may also be an opportunity to generate additional revenue to the Council by extending and renegotiating the terms of head leases.

Regeneration Investment in the A21 Corridor

51. There is an identified need for the development of new commercial space in the heart of the District on its major north/south trunk road, the A21. The Council is attempting to secure the redevelopment of sites, either utilising its own resources or with development partners. This would be key to the generation of employment in this part of the District and potentially could provide the Council with future rental income or capital receipt if disposed of to a development partner.

Camber Regeneration

52. The Council has developed a SPD masterplan which impact considerably on its land holdings in Camber, a major tourist destination in Rother. Key sites will be the former putting green (currently a public car park) and the Central Car Park. The proposals involve residential development on each site, alongside commercial uses. A development partner will be needed to see the Council's ambitions achieved for Camber.

Leisure Centre Redevelopment circa £18m

53. A major ambition of the Council is to consolidate its Bexhill based dry and wet side leisure offers onto one site. Currently there are two sites at opposite ends of the Town. Early estimates indicate a project costing up to £18m. Funding opportunities will need to be explored if this project is to progress and will include rationalising existing leisure sites and other Council properties to generate funds, proactively seeking external grant support, achieving contributions from any Community Infrastructure Levy received from developers as part of the redevelopment of North Bexhill. It is unlikely that traditional funding routes such as borrowing will be affordable.

Asset Management

54. The Asset Management Plan identifies that a rationalisation of the Council's Asset holdings is needed to improve the overall performance of the asset portfolio, manage administration and other overheads, and dispose of assets that are either performing poorly or which no longer need to be held by the Council. The acquisition of assets may be required to see delivery of the Corporate Plan projects, and subject to advice, to supplement the investment portfolio. A programme of repairs is required in order to ensure operational assets can continue to support delivery of the corporate plan objectives.

Investment in Business Technology

55. To support the Rother 20/20 plan to change the way the Council works will require investment in ICT. To achieve a lean organisation will again require investment in our business technology to automate and simplify our processes.

Funding Opportunities – Bridging the Gap

56. The above spending pressures are not at a stage where they can be reliably costed for inclusion in the approved capital programme. Proposals will be developed during 2016/17 and the cost and associated funding assessed.

This strategy and the Council's Treasury Management Strategy will need to be updated through the year.

57. The Council's capital resources (capital receipts) totalled £2.5m at 31/3/16. Given the likely scale of investment, other financial sources will be required as explained below:

Asset Sales

58. The Council has relied on the capital receipts to fund its contribution to capital schemes since going debt free in 2003. The asset holdings are currently being reviewed by the Overview and Scrutiny Committee to establish a disposal programme which does not affect the Council's ability to achieve its corporate objectives. The first properties identified to sale were auctioned in 2016 and generated receipts of £250,000.

Borrowing

59. In recent years, the Council has not had to take on any borrowing to fund the Capital Programme. Borrowing rates are monitored regularly and at present rates are low. However meeting the cost of borrowing will require compensating savings to be identified from the Revenue Budget or a sufficient return made on the investment to meet these costs.

Community Infrastructure Levy

60. From April 2016, the Council has been able to seek monies towards local infrastructure costs via the Community Infrastructure Levy (CIL). The levy is charged on both residential and retail development (subject to exceptions) and is expected to generate up to £32 million up to 2028 (Core Strategy Plan period. It is intended to help bridge the funding gap of infrastructure investment. CIL is broadly defined and can include infrastructure such as the provision of new leisure facilities. Details of the investment areas can be set out in what is known as the 'Regulation 123 List'[6].

61. Timing on receipts is difficult to predict and it is based on construction not planning permissions. There will be competing demands for the use of this income as it covers such a broad range of investment needs but it is for the District Council to ultimately decide how it is allocated.

Grant Funding

62. The Council has a successful track record of securing grant funding from the Lottery and Europe. Funds are only applied for where it meets a previously identified project or need in the district.

Public/Private Partnerships

63. Joint investment with either the private or public sectors has thus far been concentrated in the development of new affordable housing. Additional areas where a private/public partnership may be appropriate include the investments in leisure and economic regeneration. Again key to the decision

[6] Insert link to Regulation 123 list

will be affordability in terms of the Revenue Budget and therefore any increase in costs will have to be met from savings.

Revenue Funding of the Capital Programme

64. Given the financial position of the Revenue Budget, it is unlikely that significant amounts of revenue funding could be used to support the Capital Programme. As indicated elsewhere increases in spend will need to be matched by savings to keep the Revenue Budget in balance.

Summary

65. If alternative funding sources are not identified then the Council's ability to further invest in the District will be severely curtailed. Investments will need to focus on schemes that generate a return for the Council. This income can be used to support the revenue budget or potentially to support social based schemes such as affordable rented homes.

CHAPTER FOUR – RESERVES

Introduction

66. The Council holds cash backed Revenue and Capital Reserves as follows:

	Balance at 1 April 2016	Planned contrib/ (use)	Estimated Balance 31 March 2017
Revenue Reserves	**£'000**	**£'000**	**£'000**
Medium Term Financial Strategy	3,952	(65)	3,887
Economic Development Reserve	30		30
Risk Management	147		147
Repair and Renewals	1,135		1,135
Corporate Plan Projects	550		550
Invest to Save	218		218
Affordable Housing	920		920
Corporate Development	1,418	(91)	1,327
Planning Improvement & LDF	169	(150)	19
Housing Benefit Subsidy	55		55
Homelessness	127		127
New Homes Bonus Scheme	933		933
Business rates and Interest equalisation	1,709	398	2,107
Total	**11,363**	**92**	**11,455**
Capital Reserves	**2,535**	**130**	**2,405**

How and when the reserves can be used

67. Revenue Reserves are held for three main purposes:

(i) a working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing;
(ii) a contingency to cushion the impact of unexpected events or emergencies; and
(iii) a means of building up funds (called earmarked reserves) to meet known or predicted liabilities.

68. Earmarked Reserves – form part of the budget framework and can be used without recourse to Members for approval.

69. Corporate Project Reserve – this reserve is to support those key projects identified within the Corporate Plan. It is managed by the Corporate Plan Programme Board.

70. MTFS Reserve – this reserve can be used to meet planned one-off expenditure as required. It is also applied to help the Council balance its budget over the life of this strategy. The timing of its use is flexible on an as and when required basis. Use of this reserve above Officer virement limits is subject to Member approval. The table above shows that should the saving targets not be achieved there are insufficient funds in the MTFS reserve to meet the budget gap. This would then require release of other earmarked

reserves to cover the shortfall. Inevitably this would impact on programmed repairs and renewals of Council assets and infrastructure.

71. Capital Reserves are created from the proceeds from sales of land and property assets. They can only be used to fund capital expenditure.

Minimum Levels of Reserves

72. Paragraph 12 suggests that a minimum level of reserves held in the MTFS and General Fund balance should be set at 10% of annual revenue and capital spend. This equates to approximately £1.2m based on current spending. This excludes other earmarked reserves set aside for specific commitments the Council has made. In setting the minimum level of reserves account is also taken of the following factors:

(i) Cashflow requirements.
(ii) Impact of inflation and interest rates.
(iii) Estimates and timing of any capital receipts.
(iv) Capacity to deal with demand led pressures.
(v) Achievement of cash efficiencies and other savings.
(vi) Financial risks in any new arrangements/partnerships capital developments.
(vii) The availability of other funds to deal with major contingencies such as insurance cover.

79. Therefore the minimum level of reserves will change over time as the commitments the Council make change. Excluding commitments, the Council requires a level of funds to manage its day to day cash flow requirements and this is estimated to be £5m. This mainly centres around the timing differences of major outflows such as paying the major precepting authorities and major inflows such as local taxation revenues and government grants and subsidies.

Opportunity Cost of Holding Reserves

80. By holding reserves, the Council does not make those funds available for other purposes, including the generation of additional returns.

Reporting and Monitoring

81. Reserve levels are monitored regularly by the Strategic Management Team and reported annually to Cabinet as part of the budget process and through the year end statement of accounts. Any unplanned use of reserves is reported quarterly to Cabinet through the Revenue and Capital Monitoring reports.

Appendix 1

Revenue Budget Forecast 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Base Budget (Previous years final budget)	**11,860,320**	**11,575,780**	**11,785,420**	**11,955,600**	**12,183,030**
Changes Required to Base Budget:					
PAY AND PRICE INFLATION					
Pay excluding pension increases	89,900	90,800	91,710	92,630	93,550
Pensions	6,330	6,370	6,400	6,430	6,460
Major Contracts [list]					
Refuse Collection	31,490	31,960	32,440	32,930	33,420
Street cleansing	15,960	16,200	16,440	16,690	16,940
Grounds Maintenance	20,440	20,950	21,470	22,010	22,560
Other Costs					
Cash limited provision for other Costs including premises transport, supplies & services and other contracts	70,000	70,000	70,000	70,000	70,000
Sub-total Inflation	**234,120**	**236,280**	**238,460**	**240,690**	**242,930**
COMMITMENTS AND DEVELOPMENTS					
Impact of Capital Programme on interest earnings	1,350	1,360	720	740	-
Waste contract & Recycling Credits	TBD	TBD	TBD	TBD	TBD
NHB - change in contribution to reserves	(520,010)	(28,000)	(69,000)	(14,000)	
Sub -total commitments and developments	**(518,660)**	**(26,640)**	**(68,280)**	**(13,260)**	**-**
NET FORECAST BUDGET	**11,575,780**	**11,785,420**	**11,955,600**	**12,183,030**	**12,425,960**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
FUNDED BY:					
Revenue Support Grant	570,220	110,400	49,270	-	-
Retained Business Rate Income	2,609,370	2,686,350	2,772,210	2,827,650	2,884,210
New Homes Bonus - 50% of projected property growth	1,111,000	1,083,000	1,014,000	908,000	681,000
Special Expenses	714,550	728,410	742,540	756,950	771,630
Collection Fund Surplus/Deficit					
Council Tax	6,232,470	6,438,790	6,646,370	6,855,220	7,065,350
TOTAL FUNDING	**11,237,610**	**11,046,950**	**11,224,390**	**11,347,820**	**11,402,190**
FUNDING GAP	**338,170**	**738,470**	**731,210**	**835,210**	**1,023,770**

COUNCIL TAX FORECAST	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Estimated amount to be raised from Council Tax Payers	**6,232,470**	**6,438,790**	**6,646,370**	**6,855,220**	**7,065,350**
Divided by Council Tax Base (Band D Equivalent)	36,808.84	36,936.63	37,064.29	37,191.95	37,319.61
COUNCIL TAX	**169.32**	**174.32**	**179.32**	**184.32**	**189.32**
Increase in Council Tax (%)	**3.04%**	**2.95%**	**2.87%**	**2.79%**	**2.71%**
Increase in council Tax (£) per week	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Increase in council Tax (£) per annum year on year	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**

Appendix 2

Capital Programme 2017/18 to 2021/22

Project	Expenditure						Funding		
	2017/18	2018/19	2019/20	2020/21	2021/22	Total	Capital Receipts Other	Revenue Cont/ Earmarked Reserves	TOTAL
	£	£	£	£		£	£	£	£
Cultural & Related Services									
Community Grants	65,000	65,000	TBD	TBD	TBD	130,000		130,000	130,000
De La Warr Pavlion - capital grant	50,996	52,271	TBD	TBD	TBD	103,267	103,267		103,267
Total Cultural & Related Services	**115,996**	**117,271**		**0**	**0**	**233,267**	**103,267**	**130,000**	**233,267**
Housing									
Disabled Facilities Grants	TBD	TBD	TBD	TBD	TBD	0			0
Total Housing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Capital Programme	**115,996**	**117,271**	**0**	**0**	**0**	**233,267**	**103,267**	**130,000**	**233,267**