APPENDIX 1

GOSPORT BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2013/14 – 2017/18

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1. 0 INTRODUCTION AND OBJECTIVES

1.1 Introduction

The Medium Term Financial Strategy (MTFS) contains details of the main challenges affecting the Council's finances over the next few years and indicates how the Council will respond to these. It provides the overall framework for the financial investment in services from 2013 to 2018. Updated and reviewed annually, the MTFS helps to ensure that the Council's financial resources are targeted to achieve the strategic priorities and values contained within the Council's Corporate Plan.
It contains sections covering:

- Revenue – the running costs of General Fund services (affecting Council Tax levels),
- Housing Revenue Account – A statutory account which is primarily financed from Council House rents,
- Capital - the Council's plans for investment in assets used to provide benefit over more than 1 year,
- Treasury Management – management of cash flows, borrowing and investing,
- Budgeting; and,
- Risk Management.

The MTFS also provides a link to other financially related strategies including the Capital Strategy, Asset Management Plan, Treasury Management Strategy and Workforce Development Strategy.

1.2 The Council's Mission

The MTFS plays a key role in helping achieve the Council's mission of 'To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough.' by providing an efficient, effective and robust financial framework which will enable the Council to focus resources on its stated priorities.

1.3 Objectives of the Strategy

The main objectives of the Medium Term Financial Strategy are:-

To help ensure that the Council's financial resources are sufficient to achieve its stated objectives within the Corporate Plan including strategic priorities and core values;

To seek to minimise net debt and maximise income in order to provide investment in economic and efficient services within Council Tax increases below the level that might result in the possibility capping by the Government;

To ensure that the Council maintains an adequate level of General Reserves to both meet unforeseen events and help reduce vulnerability to significant fluctuations in Council Tax levels;

To provide both a link and framework to other financially related strategies;

To provide a single document to communicate the financial aims and objectives to staff and stakeholders alike; and

To provide a projection of resource requirements over a 5 year period.

2.0 REVENUE

2.1 General Fund Base Budget 2013/14

2.1.1 The current year's budget is divided into the following service areas:

Gosport Borough Services	Gross Expenditure £'000	Gross Income £'000	Net Budget £'000
Environmental Health Services	1,523	146	1,377
Parks and Leisure Activities	2,921	566	2,355
Housing Services	35,116	34,417	699
Council Housing	13,119	13,632	-513
Refuse Collection	1,717	333	1,384
Town Planning & Development	2,126	458	1,668
Transportation	954	966	-12
Other Services and Expenses	7,809	5,046	2,763
Sub-Total	62,285	55,564	9,721
Net transfer to Balances	563		563
TOTAL	65,848	55,564	10,284

2.1.2 The net general fund budget for 2013/14 is 2.4% lower than that for 2012/13 resulting in the Borough's Council Tax rates remaining unchanged, as detailed in the following table:-

Gosport-Percentage Council tax increase for 2013/14

Council's budget needs	-0.6%
Government Grant variation	-8.6%
Transfer to reserves	-4.5%
Change to Council Tax base	13.0%
Changes to Collection Fund balance	0.7%
	0.0%

2.2 Revenue Budget Projections 2014/15 – 2017/18

2.2.1 The following table shows a forecast of the revenue budget for the next four years and takes into account any significant variations in income and expenditure that are presently known or anticipated. It must be recognised that this projection represents a central forecast and may be subject to considerable variation for a number of reasons such as changes in demand for Council services, new or amended Central Government legislation (including the Government Grant Settlement) and the external economic environment in which the Council has to operate. However, it is essential that this analysis is undertaken and updated as necessary in order that any potential budget problems or opportunities are quickly identified and the appropriate action undertaken.

2.2.2 A variation in the forecasts of only approximately £56,000 affects the Borough's Council Tax rates by 1%. Major risks to the forecasts are detailed in the Council's Budget Book and include variations in demand for statutory services (such as homelessness), reduced income from Government Grants/Business Rate Retention Scheme and reduced income from fees, charges and interest receipts. The projections are particularly susceptible to political decisions on public spending levels by the coalition Government in response to the national economic situation. The forecast grant levels for 2014/15 are in accordance with the provisional local Government Finance Settlement published in February 2013. Estimates of the Grant position for 2015/16 and later years remain very uncertain and for the purposes of this forecast it is currently estimated that further reductions of £333,000 in 2015/16 and £35,000 in both 2016/17 and 2017/18 will occur.

PROJECTED GENERAL FUND FOR THE YEARS TO 2017/18

(AT CURRENT PRICES)

		(£'000)			
		2014/15	**2015/16**	**2016/17**	**2017/18**
A	2013/14 Base Budget	10,284	10,284	10,284	10,284
B	Budget Increases				
	Crematorium (income down)	50	50	50	50
	Tax Freeze Grant (2013/14)		56	56	56
	Local Elections	50		50	
	Pensions	50	150	200	250
	Inflation (inc pay award)	150	300	450	600
		300	556	806	956
C	Less Budget Decreases				
	New Homes Bonus income	(200)	(300)	(400)	(500)
	Local Plan	(80)	(100)	(100)	(100)
	Leisure Centre running costs	(100)	(100)	(100)	(100)
	RFR reduced contribution	(50)	(50)	(50)	(50)
		(430)	(550)	(650)	(750)
D	PROJECTED BUDGET TOTALS (A+B+C)	10,154	10,290	10,440	10,490
E	**FUNDING**				
	Revenue Support Grant	(2,524)	(2,124)	(2,024)	(1,924)
	Business rates Collectable /Safety Net	(5,550)	(5,716)	(5,888)	(6,064)
	Less Tariffs payable to Central Government	3,464	3,563	3,670	3,781
		4,610	4,277	4,242	4,207
F	**GBC COUNCIL TAX LEVY (D-F)**	(5,544)	(6,013)	(6,198)	(6,283)

G	**COUNCIL TAX BASE**	**24,562.4**	**24,592.4**	**24,622.4**	**24,652.4**
H	**ESTIMATED COUNCIL TAX INCOME (FOR NO INCREASE)**	**(4,980)**	**(4,990)**	**(4,990)**	**(5,000)**
I	**POTENTIAL SAVINGS REQUIRED**				
	CUMULATIVE	**564**	**1,023**	**1,208**	**1,283**
	YEAR ON YEAR	**564**	**459**	**185**	**75**

2.2.3 Whilst the figures projected in paragraph 2.2.1 represent the best projection that can currently be made, there is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2013/14 is that following the significant reduction in grant (£703,000) in 2014/15 only small reductions will be made in grant levels in 2015/16 and future years. The forecast above assumes that a further significant cut will also be made in 2015/16 although only reasonably modest reductions will occur in 2016/17 and 2017/18. It is felt that this is a realistic forecast at this stage although the risk that reductions in grant above these levels will be incurred remains high.

2.2.4 The Council is currently undertaking a series of service reviews with the objective of making efficiency savings whilst still maintaining service levels in order to help meet the financial challenges ahead. Even though it is anticipated that savings forthcoming from this measure can help meet the financial challenges faced in 2014/15 any further reduction in Central Government support in later years would require the Council to consider actions similar to those taken 3 years ago, including:

- Reduce expenditure on “back office” functions and lower priority services;
- Increase fees & charges in excess of inflation;
- Raise capital receipts to reduce the impact of capital investment; and,
- Consider local tax rises in excess of the current policy, possibly requiring a local referendum.

2.3 General Fund Working Balance

2.3.1 A key objective of the Strategy is:-

‘To ensure that the Council maintains a realistic level of General Reserves to both meet unforeseen events and help stabilise annual fluctuations in Council Tax Levels’

2.3.2 The Council’s Working Balance minimum prudent target level of 7% of net expenditure was dropped from 2009/10 and the balance frozen at £890,000. Although still very low compared to most local authorities, £890,000 is considered to be adequate, subject to the regular review of budget risk. Gosport’s working balance remains in the lowest quartile compared to other local authorities. This is considered appropriate as the Council is conscious that the balance represents local taxpayers’ funds set-aside and not directly contributing to service provision.

2.3.3 It must be recognised however, that as a result of the radical changes to the financing of Local Government in 2013/14 the Council is exposed to a number of new risk areas (including the collection of Business Rates, a risk previously borne by Central Government) so that the working balance should not be reduced at this time.

2.4 Revenue Financing Reserve

2.4.1 The Revenue Financing Reserve (RFR) is a provision available for general use, although it is particularly targeted at:-
- helping achieve efficiencies by providing funding for spend-to-save initiatives (seen as particularly important due to the forecast of a significant reduction in Central Government Grant);
- helping to ensure that variations in annual maintenance requirements can be adequately financed; and,
- reducing exposure to risk by helping to underwrite uninsurable risks and by saving premiums where self insurance is undertaken.

2.4.2 It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances. In order to achieve this, the approved Council policy is that the RFR is debited or credited with any General Fund budget variations, receives a base budget contribution and Council Tax Collection Fund surpluses/deficits (subject to the working balance first being maintained at an appropriate level).

3. HOUSING REVENUE ACCOUNT

3.1 Housing Revenue Account (HRA)

3.1.1 The HRA comprises expenditure and income relating to stock of over 3,100 Council dwellings and the provision of services to tenants. This includes management, the repair and maintenance of stock and the rent and income collection services.

3.1.2 The determination of future expenditure patterns relies upon the following key elements:

- Repair and maintenance needs of the stock
- Meeting the decent homes and post decent standards
- Aspirations of the tenants
- Rent convergence
- The resources available
- Repayment of self financing loan.

3.2 HRA Self Financing

3.2.1 The HRA subsidy reform happened in April 2012. For Gosport this meant buying out of a negative subsidy position. Full responsibility for managing and maintaining the stock rests entirely with the authority. All income will be collected and managed locally and long term investment needs of the stock can now be planned in consultation with the tenants.

3.2.2 The government has set a statutory debt limit for each housing authority which comprises the settlement figure for the authority plus what has previously been borrowed under the prudential code. The debt limit/cap for Gosport is £63.07m.This places a constraint on the potential for investment for this authority in the early years of self financing.

3.2.3 The cap on debt restricts the ability of authorities to take on additional borrowing under the prudential code, even if the borrowing is affordable for the HRA. The localism Act does allow for the reopening of the settlement, but only in very limited circumstances.

3.3 HRA Business Planning

3.3.1 An HRA business plan has been developed as part of the requirement for self financing with an accompanying financial model to show that self financing is a viable option and that debt can be repaid within the timeframe. The business plan describes the council's vision for the future of the housing stock under self financing and details how the council intends to finance investment in the housing stock. The plan sets out the long term priorities, objectives and actions for council housing for the coming years.

3.3.2 The viability of the plan has been established through the completion of a detailed financial model. The model is calculated over thirty years and shows the baseline position for the HRA. It shows the impact of the increase in housing debt as a consequence of the required borrowing of £57m and the HRA's ability to both repay the debt and manage the stock over the next thirty years.

3.3.3 Detailed calculations are provided within the model for future rent levels, management and maintenance costs as well as capital spend, depreciation, debt repayment and working balances. This model will be updated annually and rolled forward to give a continual assessment of income and expenditure over the life of the plan.

3.4 HRA Rent Income

3.4.1 The Council is currently operating its rent setting policy within the national rent restructuring framework which was introduced in 2002/3. This has now been amended to take into account the HRA reform and is expected to be completed in 2015/16.The importance of achieving guideline rent levels by 2015/16 has been discussed in other documents. It remains unclear as yet as to what if any policy will be introduced beyond 2015/16 although for the basis of any modelling, increases will be assumed at RPI levels.

3.5 Improvement and Repairs

3.5.1 The Housing services Asset Management Strategy and Action plan 2011/12 was submitted to Housing Board in March 2012.It is recognised that the full aspirations of this strategy cannot be achieved when taking into account current and predicted Capital resources (as included in the Housing Revenue Account Business Plan).It is planned for a comprehensive Asset Management Strategy to be produced for March 2013.This will be populated by data from the Asset Management software module and take into account all of the changes brought about under self financing.

3.6 Housing Revenue Account working balance

3.6.1 The HRA working balance is a reserve of the Housing Revenue Account and is "ring fenced" for this purpose.

3.6.2 The draft HRA balance as at 31 March 2013 is estimated to be in the region of £980,000. The balance is considered to be appropriate taking into account factors including the level of stock and the additional risks borne by the Council following the move to self financing.

3.6.3 In future years it is anticipated that it will be possible to maintain or slightly increase reserve levels whilst still achieving the required investment on the existing stock and allowing some funds to be earmarked to enable the provision of new affordable housing.

4.0 CAPITAL

4.1 Capital Priorities and Selection Process

4.1.1 In order to ensure that the Council's Capital expenditure is targeted at achieving the Council's Priorities capital projects must be evaluated and prioritised before they are recommended for inclusion in the Draft Capital Programme which is considered by Members as part of the budget process.

4.1.2 The projects are considered by the Council's Management Team with particular attention on their affordability (particularly critical as Government grant support has reduced) and their contribution to the priorities detailed within the Corporate Plan and associated Corporate Action Statement. The Team then make recommendations to Members on the schemes to consider and pursue as part of the Council's Capital Programme.

4.2 Prudential Framework/Impact on Revenue Account

4.2.1 The Local Government Act 2003 introduced major changes to the capital funding regime with effect from 1 April 2004.The previous system of controlling Councils capital expenditure by limiting borrowing through the use of credit approvals was replaced by a more flexible system based on affordability.

4.2.2 The prudential capital finance system (Prudential Framework) allows the Council to make its own borrowing decisions using agreed professional principles as set out in the Prudential Code to ensure that any new borrowing is affordable and prudent. It is accepted that use of the Code by the HRA will necessitate proper arrangements for debt repayment, although not currently required by statute.

4.2.3 The main advantages of the increased freedom to borrow under the Prudential Framework are:-

(i) The ability to bring forward capital schemes that would not otherwise have been possible to fund in the short to medium term under the previous capital financing regime.
(ii) Spend-to-Save Schemes where the cost of the borrowing associated with the capital expenditure on a Scheme can be wholly or partly met by revenue savings arising as a result of the project being carried out.
(iii) The ability to raise funding up to 3 years in advance when market conditions are favourable.

4.2.4 The expenditure possible under (i) will be limited by the ability of the Council to afford the revenue consequences of the borrowing undertaken. In any event, the anticipated low levels of supported borrowing, capital grants and other capital funding resources together with the national pooling of Housing Capital Receipts has resulted in an increase in the need to borrow to finance Capital Expenditure.

4.3 **Projected Expenditure**

4.3.1 **Capital Programme 2013/14-2015/16**

	2013/14 £,000	**2014/15 £,000**	**2015/16 £,000**
Community (Housing)	3,950	3,950	3,950
Community (General Fund)	927	1,093	344
Policy & Organisation	460	306	235
Total Capital Programme	**5,337**	**5,349**	**4,529**
Revenue Contribution - HRA	3,550	3,550	3,550
Specific Capital Grants - GF	270	270	270
Developer Contributions for Open Spaces -GF	183	350	
Other Grants and Contributions - GF	245	480	
Capital receipts -GF	50	550	1,125
Capital Funding Requirement - GF	1,039	149	(416)
Total Capital Funding	**5,337**	**5,349**	**4,529**

4.3.2 A significant proportion of the planned capital expenditure relates to the Community Board, with the largest area of expenditure being that of improvements to housing stock. Partly as a result of the move to self financing (see 3.2) it has been possible to increase expenditure from £2,940,000 originally budgeted for 2012/13 to £3,500,000 in 2013/14, 2014/15 and 2015/16.

5.0 TREASURY MANAGEMENT STRATEGY

5.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework, the treasury management activity covers the effective funding of these decisions. Taken together they form part of the process which ensures the Council meets the requirement of setting a balanced budget.

5.2 The CIPFA code of practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report will be produced after the year-end to report on actual activity for the year together with the mid-year position. This report includes extracts from the Treasury Management Strategy for 2013/14.

5.3 A key requirement of the strategy is to explain both the risks associated with the treasury service and how those risks are to be managed.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and debt strategy
- The Council's investment strategy
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

5.4 Treasury Position

5.4.1 The council had net borrowing of almost £78.7M at 31 March 2013 which is forecast to slightly increase during 2013/14.

5.4.2 The Council's capital expenditure plans will be partially financed by external funds such as capital receipts, capital grants, external contributions and deposits. The remaining element which is not able to be immediately financed from these sources will impact on the Council's borrowing need (the Capital Financing Requirement, or CFR). This borrowing or net financing need is known as unsupported capital expenditure and must be paid for from the Council's own revenue resources.

5.4.3 A key risk of the capital funding plan is that the estimated sources of external funding are subject to confirmation and/or negotiation which may cause changes to the budgeted funding pattern. For instance, anticipated asset sales may be postponed due to the continuing impact of the recession on the property market. This will become increasingly important as interest rates begin to rise.

5.5 Expected movement in Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to fully resolve its difficulties now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;

  There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

5.6 The Council's borrowing strategy is reproduced below

- Long-term loans (in excess of 364 days) will be raised with the PWLB or other public bodies
- Short term loans (less than 364 days) will be raised through
  - Money market loans through the London Money Market using brokers appointed at the discretion of the Borough Treasurer
  - Directly or through brokers, at the discretion of the Borough Treasurer, with other public bodies
  - Use of the Council's overdraft limit with its bankers, National Westminster Bank, up to £1 million
  - Internal funds – the cash held in internal funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally
- The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer, Head of Accountancy and Group Accountant. There is a clear segregation of duties between setting up and authorising loans and investments.

5.7 The Council's investment strategy is reproduced below

- The key objectives of the Council's investment strategy are security, liquidity and yield in that order.
- The Council has determined that it will only use approved counterparties from the UK
- No Investments are to exceed 3 years although most will not exceed 364 days

- A £3m limit applies with any single group other than the Council's Bank or UK Regulated Qualifying Money Market Funds
- Investments will be placed with bodies that meet the Council's creditworthiness criteria
- There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

6.0 BUDGET STRATEGY AND PROCESS

6.1 The Council's current Corporate Plan details the Council's Strategic Priorities which are categorised under four main headings namely, People, Places, Prosperity and the Pursuit of Excellence.
The Corporate Action Statements (contained within the Corporate Plan) underpin the delivery of the Corporate Priorities. Any budgetary implications arising from the actions outlined in Service Improvement Plans are included within the Council's initial Draft Budget. Depending on the resource constraints affecting the Council these are either ultimately approved or, if this is not possible, the unit SIP is amended to reflect this.

6.2 Budget preparation commences annually in July and incorporates requirements resulting from Council priorities identified from Capital Strategies, Community Strategy, Corporate Plan and Best Value action plans, culminating in recommendations to Boards and Council the following January/February.

6.3 Budget preparation is "zero-based" where appropriate and new bids are minimised. Maintenance proposals are provided for according to the latest Asset Management Planning requirements.

6.4 Prudent inflation parameters are used in the build up of the initial budgets.

6.5 In the interest of sustainability, the Council will not generally budget to use one-off or short-term income (including grants) on expenditure that is properly part of its base budget requirements.

6.6 Capital projects bids are considered for inclusion within the Capital Programme in terms of affordability, including impact on local tax levels as part of the Budget Process.

6.7 Once the Council's budget is set and the precepting authorities' requirements known, the Council sets Council Tax levels for the forthcoming year. (This has to be done by 11 March).

7.0 RISK MANAGEMENT AND INSURANCE

7.1 Risk Management

7.1.1 The Council recognises the importance of an effective risk management process covering all aspects of the significant business risks that the authority faces. Although much has already been achieved, further development of the risk management process remains a key priority of the Council and significant resource has been earmarked for this purpose. In particular Risk Working groups have been formed to review areas considered to be of greater risk i.e. motor, property and combined liability in order to improve the Council's overall risk performance.

7.1.2 The Council has an agreed Risk Management Strategy in place. Major capital schemes must be risk assessed as part of the approval process. In addition risk registers for both operational and strategic risks are in operation which assesses the financial risks as part of its overall framework. Finally, a corporate risk management group meets to discuss key risk issues that influence the Council's day-to-day business and to further develop and critically review the risk management process.

7.1.3 The Budget report to Council and the Budget Book highlight the principal areas of risk to the budget with an assessment of likelihood and impact.

7.2 Insurance

The Council has a range of insurance policies which help safeguard against many of the higher financial risk areas particularly relating to property, employers and public liability insurance.