

## DRAFT

## MEDIUM TERM FINANCIAL STRATEGY STATEMENT

## REVENUE ESTIMATES 2016/17 ONWARDS

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### 1 INTRODUCTION

- 1.1 This financial strategy statement is one of two that aim to support the Council's corporate objectives as identified in the strategic plan 2015 – 2020. Where they relate to the day to day revenue activities of the Council, major issues relating to resources in the medium term are set out in this statement. For matters relating to the capital programme see the separate strategy statement on capital.
- 1.2 This document also provides, at a summary level, the revenue spending plan of the Council. The success of this plan will depend upon the resources available to the Council and the approach taken to ensure that those resources are aligned with corporate objectives and are being controlled in a way that ensures long-term stability. This is achieved through the development of a plan over five years.
- 1.3 Although this document is developed for the medium term the Council reviews its strategy and therefore this statement on an annual basis for the following period. This enables the strategy to remain current and reflect changes in circumstances which impact upon the revenue resources of the Council. The annual review is completed to coincide with the annual review of the strategic plan to enable changes to be appropriately reflected in both documents.
- 1.4 The current year's local government finance settlement includes reductions in resource levels that will put the Council's revenue budget under extreme pressure for a further five years. The Council is committed to maintaining its ambition and aspiration to deliver its priorities. The Council's strategy has been developed to focus on opportunities for the Council to become more efficient and more commercial.

**2 EXPENDITURE**

- 2.1 This financial strategy statement adopts a high-level review of the corporate objectives, budget pressures and deliverable efficiencies over the five year period. This approach ensures a focus on factors that may influence the Council’s stated aim to maintain working balances and earmarked reserves ensuring that they are used for specific and special activities and not to balance the budget. The strategic revenue projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Policy & Resources Committee.
- 2.2 Detailed proposals for dealing with financial pressures and service demand are set out in the budget pages of the full revenue estimate. The major pressures assumed in the strategy are set out below.

2.2.1 Pay & Price Inflation:

The strategic revenue projection considers the allocation for pay inflation on an annual basis. The increase must allow for any pay policy issues such as pay awards, incremental increases earned through competence appraisal and increases in employer contributions such as national insurance or pension costs.

Other Costs are increased by a suitable inflation index balanced with the objectives of the strategy. Large elements of this cost will be tied to conditions of contracts which will specify the annual increase necessary, other costs will increase by the annual increase in an inflation index such as the consumer price index. In some cases the strategy intentionally uses levels of increase lower than these indices to enhance general efficiencies.

Table 1 below details the factors used for each year of the current strategy.

<b>INFLATION INDICES</b>	<b>2016/17</b> <b>%</b>	<b>2017/18</b> <b>%</b>	<b>2018/19</b> <b>%</b>	<b>2019/20</b> <b>%</b>	<b>2020/21</b> <b>%</b>
Pay Policy Changes	1.7	1.7	1.7	1.7	1.7
National Insurance	3.0				
Energy (Average)	1.0	1.0	1.0	1.0	1.0
Business Rates	0.5	0.5	0.5	0.5	0.5
Contractual Commitments	3.0	3.0	3.0	3.0	3.0
Other Cost Increases	0.0	0.0	0.0	0.0	0.0

Growth £,000	680	481	486	491	496
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*Table 1: Pay & Price Indices*

### 2.2.2 Corporate Objectives and Key Priorities:

In addition to these inflationary pressures the Council will develop and implement improvements to the corporate objectives identified in the strategic plan and, where significant, any local objectives identified in service plans. This may place additional pressure on the revenue budget.

The financial projection will also provide, where necessary, resources for national statutory responsibilities where these are to be provided locally.

Table 2 below identifies the links between the financial projection and key objectives.

STRATEGIC ISSUES	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Pension Deficit	50	83	83	83	
Economic Development	30				
Business Support	10	10	10	10	10
Housing Temporary Accommodation	150				
Housing Homeless Prevention	74	12			
Shared Planning Support	42	14			
Mid-Kent Legal Services	87				
Staffing Mid Kent Services	40				
Pay Policy review		260			
Provision for future pressures			50	50	50
<b>Total Pressures</b>	<b>483</b>	<b>474</b>	<b>143</b>	<b>143</b>	<b>60</b>

*Table 2: Strategic Expenditure Issues & links to other documents.*

### 3 FUNDING

3.1 Since the general election in 2015 the Government has completed a spending review and given indications regarding a number of significant changes to local government finance during the current parliament.

- The Government has recently offered local government a four year funding agreement that provides a guaranteed [absolute or minimum?] level of funding. This Council has indicated its [acceptance or rejection?] of this offer [complete according to final decision].
- The Government has commenced a review of New Homes Bonus effectively backdating proposals to reduce funding available to local authorities that have bonus due for previously built property and amending the focus to improve the incentive of the bonus.
- In the immediate future the Government intends to commence a full review of the localisation of business rates. The Government is proposing that the consultation considers the full localisation of business rates with localisation of additional responsibilities. The Council expects the impact of this proposal to be negative for districts council as has been the case with other recent reforms.

3.2 The strategic revenue projection assumes that the Council will make all reasonable efforts to maximise resources. This includes retained business rates, council tax yield and locally derived income:

- In order to maximise potential income from business rates growth the Council is a member of the Kent Business Rates Pool in partnership with 9 other districts in Kent, Kent County Council and Kent and Medway Fire and Rescue Authority. The pool entered its third year in 2016/17. Recognising the uncertain nature of business rates growth the strategy only allows for the growth the Council could reasonably deliver even if the pool did not exist. All additional growth will be utilised in following years once delivery is certain.
- In order to maximise council tax yield the council works collaboratively with other authorities in Kent and supports regional initiatives to increase fraud prevention and detection.
- In order to maximise its locally derived income the Council has actively developed a commercialisation strategy which has delivered income from the more effective use of its current asset base. The strategy has also included the acquisition of additional assets. This strategy will continue.

- 3.3 Grants and funding from central government and other public sector organisations is also reducing and the Council no longer places long term reliance on this source of income. Where the financial projection includes the use of fixed term grants or other time limited sources of income the relevant senior officer is responsible for preparing and acting on a suitable exit strategy at the end of the fixed term.
- 3.4 Despite the Council's efforts to influence central government policy and develop options to become self-sustained there remains significant risk in relation to stability of income generation. Details of the current opportunities and threats for each source of income are set out below:

### 3.4.1 Government Grants:

The government's financial settlement for local government proposes a number of major changes to the distribution of resources. This effectively directs central funding away from district councils towards councils with responsibilities for national priority services such as health and adult social care.

The net result of this redistribution means that this council will not receive revenue support grant after 2016/17. In addition, from 2017/18 onwards, an additional and increasing contribution back to central government from retained business rates will be required. This is a situation only experienced by 15 other English district councils by 2017/18.

Revenue support grant from central government for 2016/17 will be 38.4% of the grant received in 2015/16 and will be zero by 2017/18.

Other grants from government are under threat from the effects of Government's strategy on reducing public sector expenditure. The strategy assumes reductions in known areas such as benefit administration grants and cash frozen impacts where no information is available.

### 3.4.2 Retained Business Rates

Since 2013 the Council has retained part of the business rates it collects. The locally retained element is 40% minus the assessed tariff required by central government. The final value of the retained income is currently 5.3% of the minimum collectable.

In addition to this baseline funding level (£2.983m for 2016/17) the Council is able to retain 20% of the business rates above the overall baseline business rates collected. Expected levels of income are a combination of three factors: the baseline funding; the 20% share of growth; and a further share of growth that would otherwise form a further payment to central government in the form of a levy. This further share of avoid levy is a consequence of being a member of the Kent Business Rates Pool.

The additional income from the business rates pool is not considered in the development of the medium term financial strategy or any given year's budget because of the level of risk associated with this income. The risk includes business failure, the cost of rating appeals and increases in statutory discounts and reliefs applied. Because the income is achieved through Kent wide pooling the risks are extended across the 10 district councils in the pool.

In the period of this strategy the Government will increase the level of tariff on the Council's baseline income by a minimum of £1,598,000 reducing the income level to a maximum of 2.7% of the minimum collectable. This is expected to occur in 2019/20.

### 3.4.3 Council Tax

The Council has a responsive approach to the level of council tax and will set this at an appropriate level commensurate with the needs of the strategic plan. In recent years the Council has set a small increase of less than £5.00 per annum.

The most significant risk facing the Council is the changes to the local government finance settlement. The resource calculations made by central government suggest assumptions that the council tax charge will increase annually as will chargeable properties in the borough.

The Council must consider the need to set a balanced budget in austere times as it wishes to continue to provide high quality services as required by its customers. To respond to this need, while managing the Government's funding assumptions, increases pressure upon the Council to increase the council tax charge on an annual basis throughout the period of the strategy.

### 3.4.4 Fees & Charges

## APPENDIX F

The Council has a policy on the development of fees and charges that fall within its control. This policy ensures that the evaluation of market forces and links to either the strategic plan or service plans are drivers of change in price. This means that any increases in this funding source will be identified through each committee's detailed budget preparation work.

For 2016/17 all fees and charges were considered by the relevant service committee and the decisions made are in line with the policy. Although the increase, in each case, was considered and set appropriately not all fees and charges were increased. The overall position produced a 1.2% increase in income levels.

3.5 Table 3 and table 4 below show the expected level of resources for each year of the strategy and any pressures that are expected to affect the level of income or its collection.

STRATEGIC ISSUES	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Revenue Support Grant	870	0	0	0	0
Business Rates Baseline Need	2,983	3,042	3,132	3,232	3,297
Business Tariff Adjustment	1,186	1,196	1,206	1,216	1,226
Business Rates Growth	0	-223	-868	-1,589	-2,909
Council Tax	14,238	14,492	14,928	15,378	15,841
Other Income	14,214	14,457	14,527	14,597	14,667
<b>Total</b>	<b>33,491</b>	<b>32,964</b>	<b>32,925</b>	<b>32,834</b>	<b>32,122</b>

*Table 3: Resource and Income Levels.*

STRATEGIC ISSUES	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Loss of Housing Benefit Administration Grant	100	100	100		
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

*Table 4: Strategic Income Issues & links to other documents.*



**4 BALANCES & EARMARKED RESERVES**

- 4.1 The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances. In setting the level of these balances and reserves an assessment is made of the potential risk and opportunities that could reduce or enhance those balances.
- 4.2 Revenue balances at 1st April 2015 totalled £# and it is estimated that the balance will be £# by 31st March 2016.
- 4.3 The major item's reducing the balance are approved budget carry forwards of £# from 2014/15 for prior agreed purposes.
- 4.4 In addition to general balances the Council maintains a series of earmarked reserves. The balance and purpose of each reserve is set out in table 5 below.

<b>RESERVE</b>	<b>2016/17 £,000</b>	<b>2017/18 £,000</b>	<b>2018/19 £,000</b>	<b>2019/20 £,000</b>	<b>2020/21 £,000</b>
<u>Capital Support</u> Resources set aside from past and future receipts of new homes bonus to finance the Council's proposed capital programme.	6,337	3,213	5,487	6,015	6,213
<u>Local Plan</u> Resources set aside by the Strategic Planning, Sustainability and Transportation Committee	353	0	0	0	0
<u>Business Rates Reserve</u> Resources set aside to mitigate losses and / or fluctuations in the level of business rates growth actually achieved	336	1,204	1,204	1,204	1,204
<u>Trading Accounts</u> Balances held on special accounts where the Council is required to trade at break-even over a specified period. Normally three years	179	150	100	0	0
<u>Neighbourhood Planning</u> Balances held on account for the support of Neighbourhood Plan work	107	107	107	50	0

*Table 5: Earmarked Reserves.*

## **APPENDIX F**

- 4.5 Excluding these earmarked reserves the estimated value of general reserves at 31st March 2016 is £4,102. This is estimated to move to £4,052 by 31st March 2017.

**5 EFFICIENCY**

5.1 The Council’s strategic plan identifies value for money as essential to the delivery of its priorities. This theme runs through service plans and by this the Council’s approach to efficiency is integrated into all decision making.

5.2 The Council uses a number of measures to identify ways to achieve efficiency and to gauge success. These include:

- Peer review and peer challenge;
- Benchmarking to measure unit cost and performance, comparing these over time and across similar councils throughout the country;
- Other benchmarking exercises undertaken by local managers to challenge service delivery in their own right;
- The identification of efficiency targets that match the Council’s need over the period of this medium term financial strategy.

5.3 Efficiency proposals are carefully measured for effect upon capacity, acceptable levels of service, quality standards and the potential of shared service provision. All efficiency proposals consider the effect of fixed costs and the effect on the base financial standing of the Council and the opportunity for reinvestment of gains into priority services or towards achievement of strategic objectives.

5.4 The adoption of efficiency and value for money as part of this strategy helps to ensure that the strategic revenue projection will remain within available resources.

5.5 The strategic revenue projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 6 below details the required savings for each year based on the factors set out in this strategy statement. The table gives context by reporting savings as a value and as a percentage of net revenue expenditure.

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Net revenue expenditure £,000	19,619	19,073	19,609	18,580	17,798
Savings Required £,000	2,178	1,308	173	1,593	1,268
<b>Percentage %</b>	<b>11.1</b>	<b>6.9</b>	<b>0.9</b>	<b>8.6</b>	<b>7.1</b>

*Table 6: Savings as a Percentage of Net Revenue Expenditure*

5.6 The Council has developed high level proposals for developing the required savings and efficiencies over the period of this strategy.

### 6 CONSULTATION

- 6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a programme has been proposed that ensures the focus of annual consultations avoids the review of similar themes and builds a body of opinion.
- 6.2 The Council consults annually on this strategy and the proposed budget for the forthcoming year. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.
- 6.3 In recent years the consultation has considered the level of council tax increase, service areas where reductions could occur, elasticity of demand for services that require a fee to be paid, the importance of the discretionary services provided by the Council, customer's views on the Council's value for money and the ability of residents to influence financial decisions.
- 6.4 The consultation on the 2016/17 budget was incorporated into the residents' survey.

### 7 RISK MANAGEMENT

- 7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, the strategy considers the barriers to achieving the resource levels assumed by the budget.
- 7.2 A full risk assessment of the strategy is completed annually and forms part of the operational risk assessment of the services provided by the Head of Finance & Resources.
- 7.3 Twelve major risk areas have been identified and action plans have been developed for each. The twelve areas are as follows:
1. The level of balances & reserves;
  2. Inflation allowances;
  3. National strategy;
  4. Limitations on council tax increases;
  5. Fees & charges;
  6. Commercial activities;
  7. Capital financing;
  8. Horizon Scanning;
  9. Impact of Government consultations
  10. Delivery of savings & efficiencies;
  11. Collection fund – collection rates;
  12. Business rates pool;