

**BUDGET STRATEGY 2011/12 ONWARDS**

**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2011  
ONWARDS**

<b>Index</b>	<b>Page</b>
Introduction	1
Revenue	
Expenditure	2
Funding	3
Capital	
Programme	5
Funding	6
Reserves	
General Fund	7
Provisions	7
Capital Receipts & Contributions	7
Capital Grants	7
Efficiency	8
Consultation	10
Risk Management	11

## 1. **INTRODUCTION**

- 1.1 This financial strategy aims to support the council's corporate objectives as identified in the strategic plan 2011 to 2015. Whilst achieving this, major issues relating to resources and facing the council in the medium term will also be highlighted.
- 1.2 The intention is to set out the revenue and capital spending plans of the council at a high level. The success of these plans will depend upon the resources available to the council, the approach taken to ensure that these resources are aligned over the medium term to reflect corporate objectives and these resources being controlled in a way that ensures long-term stability.
- 1.3 The government announced details of its spending review in October 2010 and has since consulted on the formula grant settlement for 2011/12 and 2012/13. This settlement means significant reductions in revenue support grant for the Council. The approach of this strategy is to develop a four year plan with consideration of the impact of material issues on a fifth year. The two year settlement has required a number of assumptions about further years of the strategy and these have been based around the Spending Review 2010 data.
- 1.4 Although this document is developed for the medium term with an outlook from four to five years, the council will review the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. This review will be completed to coincide with the annual review of the strategic plan. This will enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key outcomes. Production of this document and the balanced budget it facilitates support the key outcomes of the strategic plan in their own right.
- 1.5 In addition the council will consult with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

## 2. REVENUE

### 2.1 Expenditure

2.1.1 The portfolio budgets in the full revenue estimates include detailed proposals for dealing with financial pressures and service demand, this financial strategy adopts a high-level review of the corporate objectives and budget pressures 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 ensure that they are used for specific and special activities and not to balance the budget. The financial projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Cabinet.

#### 2.1.2 Pay and price inflation:

The financial projection makes an allocation for pay increases on an annual basis. This increase must allow for a staff pay award, any incremental increases earned through competence appraisal and any increase in employer contributions such as national insurance.

Other costs will need to consider a suitable inflation index. 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 retail price index or the consumer price index.

Table 1 below details the factors used for each year.

<b>Strategic Issue</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Pay Inflation	0.0	0.0	1.0	1.5	2.0
Other Costs Inflation	0.0	0.0	2.0	2.0	2.0
Contractual Commitments	2.0	2.0	2.0	2.0	2.0

*[Table 1: Pay & price Indices]*

#### 2.1.3 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.

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.

SP KO	Strategic Issue	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
	Revenue Provision for Borrowing		150	150		
	Leisure Centre	160				
	Set-up cost provision	250				

[Table 2: Strategic Issues, links to other documents]

## 2.2 Funding

2.2.1 Resources available for the revenue budget are heavily constrained making the issue key to the financial planning process. The financial projection assumes that resources are maximised. The strategy identifies three separate categories of resource government grant, locally derived income from fees and charges and council tax. Where the financial projection includes the use of fixed term grant or income sources each portfolio is responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

### 2.2.2 Government Grant:

The current revenue support grant settlement is a two year settlement with the second year notified to Councils as provisional. The Government has reported that during that two year period they will adopt a new method for the distribution of revenue support. The strategy responds to this by utilising the figures from the two year settlement and projecting forward on the basis of the Government's intentions as outlined in the Spending Review of 2010.

Other grants received from the government are similarly under threat from the effects of the national economy and the efficiency agenda as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only consider the freezing of such grants at their 2010/11 cash values unless further data is available. Table 4 identifies expected variances from this assumption.

### 2.2.3 Fees & Charges

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

assumption is that in overall terms the increase will be commensurate with general inflation. Due to the final effects of the recession, for 2011/12 the financial projection will assume total cash income is frozen at 2010/11 values but will increase slowly in response to the predicted end to the recession.

#### 2.2.4 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. It has set a policy in recent years of an increase that avoids the threat of council tax capping but remains flexible on the level of that increase, thus focusing the strategy on its ability to set a balanced budget.

The Government's objective of a national Council Tax freeze has been formulated into the strategic projection and the Council has modelled the future financial risk inherent in accepting the Government grant. The fifth year of this strategy identifies the loss of grant and the resulting additional savings required. The purpose of this strategy is to identify such risk and provide the Council with opportunity to prepare for future events in a considered and timely manner.

Table 3 below details the factors used for each resource type and Table 4 details the links between the financial projection and the major risk factors.

<b>Strategic Issue</b>	<b>2011/12</b> %	<b>2012/13</b> %	<b>2013/14</b> %	<b>2014/15</b> %	<b>2015/16</b> %
Revenue Support Grant decrease	-16.6	-11.3	-1.2	-7.6	-7.6
Fees & Charges increase	0.0	1.0	2.0	2.0	2.0
Council Tax increase	0.0	2.5	2.5	2.5	2.5

*[Table 3: Resource and income indices]*

<b>SP KO</b>	<b>Strategic Issue</b>	<b>2011/12</b> £,000	<b>2012/13</b> £,000	<b>2013/14</b> £,000	<b>2014/15</b> £,000	<b>2015/16</b> £,000
21	Housing Benefit Admin Grant	36	40	40	40	40
21	Parking Income	50	50	50	50	50
21	Regeneration Income			200		
21	Interest on Investments	150	100	100		
21	Income Generation	50				
14	Cobtree Charity	80	20			

*[Table 4: Strategic Issues, links to other documents]*

### 3. CAPITAL

#### 3.1 Programme

3.1.1 The strategy for the capital programme requires consideration of two issues, the scheme specifics and the overall programme.

3.1.2 The overall programme is considered in terms of the prudential borrowing principles of sustainability, affordability and prudence. The overall programme assessment also considers the relative priority of schemes as they enhance the provision of corporate or service based objectives.

3.1.3 The inclusion of capital schemes within the overall programme requires an assessment based on affordability in revenue and capital terms and deliverability in terms of ability to complete, whole life cost and risk assessment.

3.1.4 Prioritisation of schemes will occur in the following order:

- a) For statutory reasons;
- b) Fully or partly self funding schemes with focus on corporate objectives;
- c) Other schemes with focus on corporate objectives;
- d) Maintenance / Improvement of property portfolio not linked to corporate objectives;
- e) Other non priority schemes with a significant funding gearing.

3.1.5 The programme for the period 2010/11 to 2012/13 focuses on a series of key projects reflecting the strategic plan and a series of projects providing investment in the property assets. The detailed Capital Programme provides the link between the strategic plan key objectives and the current programme.

3.1.6 The capital programme is a three year programme and Table 5 below summarises the 2010/11 to 2012/13 programme by portfolio. This table incorporates the programme for 2009/10 for information.

Portfolio	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Leader	0	0	0	0	0
Community Services	28	250	0	0	0
Corporate Services	335	370	330	330	330
Environment	31	26	0	0	0
Leisure & Culture	3,164	3,319	50	50	50
Regeneration	4,100	6,035	3,080	1,880	1,880
	7,658	10,000	3,450	2,260	2,260

[Table 5: Capital programme]

## 3.2 Funding

3.2.1 Since 2004 the Council has been debt free and the major sources of funding for capital expenditure has come from capital receipts and government grant. The medium term financial strategy has, in the past, identified the time when such resources would reduce to the point where alternative funding would be required to support a continued programme of capital expenditure. The most recent strategy identifies that the most likely need for immediate funding will occur in 2012/13.

3.2.2 Although commitment to a scheme is given by its inclusion in the programme, the strategy requires that funding is identified in advance of formal commencement of work. This assumption can be maintained up to the level of the Council's prudential borrowing limit as set in the Prudential Indicators. The quarterly monitoring of the capital programme enables Cabinet to take effective decisions based on current levels of funding before major projects commence.

Table 6 below identifies the current funding assumptions and the minimum risk of prudential borrowing need.

<b>Funding Source</b>	<b>2010/11 £,000</b>	<b>2011/12 £,000</b>	<b>2012/13 £,000</b>	<b>2013/14 £,000</b>	<b>2014/15 £,000</b>
<b>Confirmed:</b>					
Capital receipts	1,914	3,668	0	0	0
Capital grant	4,100	2,561	450	450	450
Revenue	1,644	0	0	0	0
<b>Assumed:</b>					
Capital receipts	0	3,471	329	0	0
External funding	0	300	300	0	0
Prudential borrowing or other source.	0	0	2,371	1,810	1,810
	7,658	10,000	3,450	2,260	2,260

*[Table 6: Capital financing, confirmed and assumed]*

#### 4. RESERVES

- 4.1 The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances or events. In setting the level of these balances and reserves an assessment is made of the potential risks and opportunities that could reduce or enhance those balances.
- 4.2 All revenue balances at 1<sup>st</sup> April 2010 total £8.3m and it is estimated that this balance will be £5.8m by 1<sup>st</sup> April 2011. The major items reducing the balance are approved budget carry forwards of £1.7m from 2009/10 resources into 2010/11 for prior agreed purposes and support for the Local development Framework and minor initiatives.
- 4.3 The balances comprise a general balance and a series of specific allocations the breakdown of these is given in Table 7 below.

Balances	01/04/2010 £,000	01/04/2011 £,000	01/04/2012 £,000
General balance	5,222	3,220	2,670
Trading account surpluses	30	30	30
Asset replacement	7	47	47
Invest to save initiatives	551	539	484
Local development Framework	352	0	0
VAT Reclaim	2,227	1,977	1,541
Total	8,389	5,813	4,772

[Table 7: Revenue balances]

- 4.4 In addition to revenue reserves a small number of capital reserves exist due to the timing of expenditure in the Capital Programme.
- 4.5 Available capital receipts at 1<sup>st</sup> April 2010 total £2m and it is estimated that this balance will be used up during 2010/11.
- 4.6 Other capital balances include grants and contributions unapplied which total £1.5m at 1<sup>st</sup> April 2010. These balances are, in most cases, received for specific schemes and applied only to finance those schemes.



## 5. Efficiency

- 5.1.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money services that residents are satisfied with, as a key outcome. This theme runs through service plans and by this the Council's approach to efficiency is integrated in to all decision making.
- 5.1.2 The Council has successfully achieved all its government set efficiency targets and will not cease to monitor and improve upon levels of efficiency both through improved service levels and reduced costs.
- 5.1.3 The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:
- a) Annual best value reviews performed by officers and by members.
  - b) Kent wide benchmarking to measure unit cost and performance levels and compare these over time and across Kent.
  - c) Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
  - d) The identification of efficiency targets that match the government's requirements over the period of this medium term financial strategy.
- 5.1.4 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 toward achievement of corporate objectives.
- 5.1.5 The adoption of efficiency and VFM as part of this strategy helps to ensure that the financial projection will remain within available resources.
- 5.1.6 The financial projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 8 below details the required saving for each year, based on the factors used in the financial projection, and the percentage of net revenue spend the given saving represents.

<b>Strategic Projection</b>	<b>2011/12 £,000</b>	<b>2012/13 £,000</b>	<b>2013/14 £,000</b>	<b>2014/15 £,000</b>	<b>2015/16 £,000</b>
Annual Savings Requirement	1,878	1,068	608	773	967
Percentage Saving	9.29%	5.38%	3.01%	3.83%	4.86%

[Table 8: Annual savings requirement]

5.1.7 The Council has required the savings target to be met in the medium term and at this time proposals are in place to provide efficiency and savings to meet the requirement through to 2013/14. The Council is continuing to develop long term proposals to ensure the future risk is mitigated at the earliest time.

## 6. **CONSULTATION**

- 6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a specific focus is set annually in order to avoid annual consultations that review similar issues.
- 6.2 The Council therefore 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 acceptable and the service areas where reductions should occur, the elasticity of demand for services provided by the Council with a related fee and for this strategy the consultation focused on the long term factors faced by the Council due to the current economic climate and the relative importance residents place on a range of discretionary services provided by the Council.

## 7. **RISK MANAGEMENT**

- 7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, this strategy must consider the barriers to achieving the resource levels assumed by the budget.
- 7.2 A full risk assessment of the strategy has been completed and forms part of the operational risk assessment of the services provided by the Head of Finance and Customer services.
- 7.3 Eleven major risk areas have been identified and action plans have been developed for each. The eleven areas are as follows:
  - a) The level of balances;
  - b) Inflation rates;
  - c) The national deficit;
  - d) External grants and contributions;
  - e) Limitations on Council Tax increases;
  - f) Fees and charges;
  - g) Capital financing;
  - h) Horizon scanning;
  - i) Delivery of efficiency;
  - j) Pension fund valuations;
  - k) Savings targets;