

**BUDGET STRATEGY 2013/14 ONWARDS**

**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2013/14  
ONWARDS**

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## 1. INTRODUCTION

- 1.1 This financial strategy aims to support the Council's corporate objectives as identified in the strategic plan 2012 to 2017. Whilst achieving this, major issues relating to resources and facing the Council in the medium term will also be highlighted.
- 1.2 Set out in the document are 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 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. The approach taken is to develop a four year plan with consideration of the impact of material issues on a fifth year.
- 1.3 The current year's finance settlement, being the first year of the new system, required significant change to mitigate new risks. A number of assumptions about further years of the strategy have been based around the Spending Review 2010 data by projecting this level of reduction into the future.
- 1.4 Although this document is developed for the medium term with an outlook from four to five years, the Council reviews the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. The review will be completed to coincide with the annual review of the strategic plan to 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 consults 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 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 Detailed proposals for dealing with financial pressures and service demand are set out in the portfolio budgets in the full revenue estimates.

2.1.3 Pay and price inflation:

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

Other costs will need to consider 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 retail price index or the consumer price index. The strategy may intentionally use levels of increase lower than these indices to enhance general efficiencies.

Table 1 below details the factors used for each year.

Inflation Indices	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %
Pay Inflation	1.5	1.5	2.0	2.0	2.0
Other Costs Inflation	5.0	4.0	4.0	3.0	2.0
Contractual Commitments	3.1	3.1	3.1	3.0	3.0
Business Rates Increases	2.8	2.8	2.1	2.0	2.0
Energy Increases	0.0	0.0	0.0	0.0	0.0
Growth in £,000	£372	£481	£514	£510	£514

[Table 1: Pay & price Indices]

2.1.4 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	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Revenue support to Capital	150				
Borough Elections	-80	80			
Council Tax Benefit Admin		130		100	
Local Development Framework		50			
Economic Development	40				
Homelessness Prevention	101				
Parish Services Agreement		80			

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

## 2.2 Funding

2.2.1 During the period since the spending review in 2010 the Government has completed a review of local government finance and revised the system of formula grant and national non-domestic rates. From 1<sup>st</sup> April 2013 a system that enables the retention of part of the business rates collected by the Council will commence, amending the arrangements and risks around the resources available to the Council.

2.2.2 Even with this step towards greater localisation of resources, those available to the revenue budget remain heavily constrained making this issue key to the financial planning process. The strategic revenue projection assumes that resources are maximised. The strategy identifies four separate categories of resource government grant, retained business rates, council tax and locally derived income from fees and charges.

2.2.3 Where the financial projection includes the use of fixed term grant or other time limited income sources the relevant Cabinet Member and senior officer are responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

2.2.4 Government Grant:

The revenue support grant for 2013/14 has been developed using the formula grant methodology from the centralised system used in 2012/13. The government has confirmed the level of grant for 2013/14 and a provisional sum has also been provided for 2014/15 and these are tabled below. The grant is reduced from the level received in 2012/13.

2013/14 is the last year that the Government will use the formula grant methodology. In future years the grant will be fixed. It will however reduce in cash terms as a direct result of the Government's planned reductions in public sector spending

The Chancellor of the Exchequer confirmed in his Autumn Statement that reductions in government funding will continue into the foreseeable future.

Reductions, similar to those experienced by local government since 2010, are currently expected to continue until 2017 and are set out in the strategy.

Other grants received from the government are similarly under threat from the effects of the government's strategy to reduce public expenditure as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only freezes such grants at their current cash values unless further data is available.

#### 2.2.5 Retained Business Rates

As a result of the local government finance review the Council will now retain locally a part of the business rates it collects. In providing for the retention in this way the government has passed on to the Council part of the risk related to the overall levels of business rates collected. Using a system of baseline funding levels, support for significant reductions and sharing of increases in rates the system ensures gains and losses that are experienced by the Council are limited but not negated.

In 2013/14 the Council expects to collect £56m in business rates. The baseline funding level for this Council is £2.8m and this is achievable within the total business rates to be collected. It is possible that this will offer a small gain from growth in the system over the baseline levels set by the government. As there is a significant risk to the Council from backdated rating appeals, the strategic revenue projection assumes resources retained from business rates to be at the baseline funding level.

#### 2.2.6 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 no increase but remains flexible on the level of increase for future years thus focusing the strategy on its ability to set a balanced budget.

The recent policy of no increase has enabled the Council to benefit from the time limited council tax freeze grant available from central government. The first of those grants ends in 2013/14 and the second ends in 2015/16. While the government is offering a similar but less valuable 1% grant in 2013/14 this will not compensate for the loss of previous grant and a further freeze in council tax levels. The Council must consider the need to set a balanced budget that enables it to provide the services that are required.

The Council has set (for completion following Council)

#### 2.2.7 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.

For 2013/14 all fees and charges collected by the Council were considered by Cabinet and a range of increases were set, in line with the policy statement. Although the increase in each charge was considered and set appropriately for its individual circumstance, the overall position created a 2.28% increase in expected income.

Strategic Issues	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Revenue Support Grant	4,192	3,214	2,304	1,813	1,349
Retained Business Rates	2,847	2,935	3,026	3,117	3,211
Council Tax	12,504	12,810	13,123	13,441	13,767
Fees & Charges	7,787	8,026	8,166	8,306	8,446

[Table 3: Resource and income indices]

Strategic Issues	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Benefit Administration Subsidy	40				
Income reduced by Regeneration Projects		200			

[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 specific capital schemes within the overall programme requires an assessment based on affordability in revenue and capital terms, including the whole life cost, project timeline 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 priority outcomes;
  - c) Other schemes with focus on priority outcomes;
  - d) Maintenance / Improvement of property portfolio not linked to priority outcomes;
  - e) Other non priority schemes with a significant funding gearing.
- 3.1.5 The Council sees significant need for capital investment in the future. Not only those schemes currently in the capital programme but the infrastructure schemes required for the housing and business growth that is required to meet the needs of the growing population of the borough. In the main it is expected that those schemes will be funded directly from the benefits gained from development however there will be a funding gap and the Council must prepare itself to support that infrastructure to maintain its key priorities.
- 3.1.6 In addition the Council is constantly focused on the need for efficiency in the use of resources and the delivery of services. It is aware of the need to diversify the sources of income obtained outside of the reducing support from central government. One aspect of this is to take a commercial approach to the provision of services that have displayed increased demand and higher cost over the last five years. As this may require capital investment the Council has agreed to allow borrowing to achieve this objective subject to a business case and successful implementation of savings that cover the cost of borrowing and ensure the principles set out in 3.1.2 to 3.1.4 are met.
- 3.1.7 The programme for the period 2013/14 to 2017/18 currently focuses on a series of projects providing investment in the property assets and core funding for affordable housing and the commencement of the commercial approach to services. At this time Council is developing its response to infrastructure need as set out in 3.1.5 and this will be included in the capital programme when clear scheme priorities and funding are identified.

3.1.8 The capital programme is a five year programme and Table 5 below summarises the programme by portfolio.

Portfolio	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Community & Leisure	2,790	1,590	450	450	450
Corporate Services	1,080	380			
Economic & Commercial Development	1,611				
<b>Grand Totals</b>	<b>5,481</b>	<b>1,970</b>	<b>450</b>	<b>450</b>	<b>450</b>

[Table 5: Capital programme]



## 3.2 Funding

- 3.2.1 The medium term financial strategy has taken a flexible approach to funding the capital programme, as resources from capital receipts have become uncertain the Council has provided a low level of support from revenue resources to maintain core asset management programmes. In addition it has taken a flexible approach to the programme commencing priority schemes only where funding is identified.
- 3.2.2 The Council's main source of funding for the capital programme over the last two years has been through new homes bonus. The funding stream is identifiable in value over a period of six years but has an uncertain future. As a prudent use of this money the Council has supported its capital programme and not the short term deferral of financial savings required in the revenue budget.
- 3.2.3 In the past the programme benefited from major receipts from the sale of assets. The Council no longer holds surplus assets of such significant value and the funding from capital receipts has reduced to the sale of small assets that can be identified as surplus.
- 3.2.4 Due to the uncertainty of future funding it is essential that the Council maintains the principle of prior funding of schemes. Although commitment to a scheme is given by its inclusion in the programme, this strategy requires that funding is identified in advance of formal commencement of work. 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. For the standard programme there is no risk of prudential borrowing need over the period.

Portfolio	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Revenue Support	-5,009	-1,520			
Use of Capital Receipts					
Capital Grants and Contributions	-472	-450	-450	-450	-450
Grand Totals	<b>-5,481</b>	<b>-1,970</b>	<b>-450</b>	<b>-450</b>	<b>-450</b>

[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 Revenue balances at 1<sup>st</sup> April 2012 total £10.1m and it is estimated that this balance will be £5.2m by 1<sup>st</sup> April 2013.
- 4.3 The major items reducing the balance are approved budget carry forwards of £3.5m from 2011/12 resources into 2012/13 for prior agreed purposes and support for the Local Development Framework and minor initiatives.
- 4.4 *(Section on use of 2011/12 revenue underspend once approved)*
- 4.5 The government's intention is to continue to reduce resources available to local government and the Council will continue to set a balanced budget by identifying savings and efficiencies. As far as possible this will be completed as need arises but it may continue to be successfully completed in advance. While the Council does not expect underspends as significant as those seen in 2011/12 it will plan for the potential to underspend from savings delivered in advance of identified need. These resources will be utilised as in 2012/13 to provision projects that support the Council's priorities and it is proposed that these schemes be identified approved and prioritised in advance so that the use of any potential underspend can be achieved more efficiently.
- 4.6 Currently, balances comprise a general balance and a series of specific allocations, the breakdown of these is given in Table 7 below.

Balances	01/04/2012 £,000	01/04/2013 £,000	01/04/2014 £,000
General Balance	8,182	3,066	3,066
Trading Account Surpluses	125	125	125
Asset Replacement	87	127	167
Invest to Save Initiatives	520	514	554
Local Development Framework	334	0	0
VAT Reclaim	898	798	798
Commercialisation		500	500
<b>Grand Totals</b>	<b>10,146</b>	<b>5,130</b>	<b>5,210</b>

*[Table 7: Revenue balances]*

- 4.7 In addition to revenue reserves a small number of capital reserves exist due to the timing of expenditure in the Capital Programme. These are set out below:
- 4.8 There were no significant available capital receipts at 1<sup>st</sup> April 2012. It is expected that any future receipts will be utilised in the year they are realised.



## 5. Efficiency

5.1.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money (vfm) 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) Benchmarking to measure unit cost and performance, comparing these over time and across similar councils throughout the country.
- 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 Council's need 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.

Strategic Projection	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000
Annual Savings Requirement	788	1,787	1,170	842	1,028
Percentage / Net Revenue Spend	4.0%	9.4%	6.3%	4.6%	5.6%

[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 2014/15. 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 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 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 Twelve major risk areas have been identified and action plans have been developed for each. The twelve areas are as follows:
- a) The level of balances;
  - b) Inflation rates;
  - c) National strategy;
  - 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 changes;
  - k) Business rates retention.
  - l) Council Tax Benefit changes