

APPENDIX H

**BUDGET STRATEGY 2014/15 ONWARDS
DRAFT
MEDIUM TERM FINANCIAL STRATEGY – REVENUE
2014/15 ONWARDS**

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1. INTRODUCTION

- 1.1 This financial strategy form one of two strategies that aim to support the Council's corporate objectives as identified in the strategic plan 2010 - 2015. Whilst achieving this, major issues relating to resources and facing the Council in the medium term are considered where they relate to the day to day revenue activities of the Council. For issues relating to the capital programme see the strategy regarding capital.
- 1.2 Set out in the document are the revenue 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. This is achieved through the development of a five year plan.
- 1.3 The year 2013/14 brought significant change that had a major impact on the Council's strategy including efforts to develop new ways to mitigate the risks relating to the retention of business rates and the local council tax support scheme. Some of the risks currently faced by the Council are greater than any faced so far and are expected to extend beyond the period of this strategy. A number of the assumptions about further years of the strategy have been based around the spending review 2010 and spending round 2013 data, by projecting those levels of reduction into the future. This work combines local knowledge with information from sources such as central government and the local government association amongst others.
- 1.4 Although this document is developed for the medium term with an outlook of 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 is 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. EXPENDITURE

- 2.1 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 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 Cabinet.
- 2.2 Detailed proposals for dealing with financial pressures and service demand are set out in the portfolio budgets in the full revenue estimates. The major pressures assumed in the strategy are set out below:

2.2.1 Pay and price inflation:

The strategic revenue projection considers the allocation for pay inflation on an annual basis. The increase must allow for any staff pay award, incremental increases earned through competence appraisal and increases in employer contributions such as national insurance or current 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. 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 of the current strategy.

Inflation Indices	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Pay Inflation	1.5	1.5	1.5	2.0	2.0
Energy Increases	4.0	4.0	3.0	2.0	2.0
Business Rates Increases	2.0	3.1	3.0	3.0	3.0
Contractual Commitments	2.1	2.1	2.0	2.0	2.0
Other Cost Increase	0.0	0.0	0.0	0.0	0.0
Growth in £,000	£455	£471	£464	£551	£563

[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	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Borough Elections	80				
Local Development Framework	50				
Economic Development	30	30	30		
Homelessness Prevention	101				
Parish Services Agreement	80				

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

3. FUNDING

3.1 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 1st April 2013 a system that enables the retention of part of the business rates collected by the Council brought significant risk to the level of funding available to the Council from revenue support grant and business rates.

3.2 The SRP assumes that the Council will make every effort to maximise resources this includes retained business rates, council tax yields and locally derived income.

- In order to maximise potential income from business rates growth the Council has developed a business rates pool in partnership with Kent County Council;
- In order to maximise yield from council tax the council has increased its fraud work and is introducing a premium on long term empty property;
- In order to maximise its locally derived income the Council is introducing a series of commercial activities and developing methods of improving income levels from its present asset base.

3.3 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.

3.4 Government Grant:

Under the current system the finance settlement for 2014/15 is rolled forward from the previous year's settlement after adjustments only for new government initiatives and policy. The Government has confirmed the level of revenue support grant and the business rates baseline need for 2014/15 and indicative figures have been provided for 2015/16, these are given in Table 3 below. The grant continues to reduce from the levels received in prior years.

The Chancellor of the Exchequer confirmed in his Autumn Statement 2013 that reductions in Government funding will continue for the forthcoming parliament following the 2015 election. Reductions, similar to those experienced by local Government since 2010, are currently expected to continue past the end date of this 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 most government departments. The strategy will assume future grant aid is likely to be at risk and will assume cash frozen

values where no information to the contrary is available.

3.5 Retained Business Rates

As a result of the local government finance review which commenced in 2010, the Council now retains a part of the business rates it collects locally. In providing for the retention in this way the Government has passed on to the Council 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 any increase the system ensures gains and losses that are experienced by the Council are limited but not negated.

In 2013/14 the Council has seen its collectable business rates decline considerably. The baseline funding level for this Council is £2.8m in 2013/14 and income levels would put the Council £0.5m below this level. However the government's own policy on small business rate relief has in part created this loss and the Council can expect to be reimbursed by Central Government at year end.

The Government has enhanced this policy for 2014/15, a similar impact has been predicted and support is expected from central Government. However there remains a significant risk to the Council from backdated rating appeals. The strategic revenue projection assumes resources to create a provision against loss will be retained from the overall business rates income. Any fluctuations in the pace and level of decisions on business rates appeals will therefore affect the levels of business rates received in year if the provision is exhausted.

3.6 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. In recent years it has set a small increase below CPI inflation levels and remains flexible on the level of increase for future years. The increase is set by the Council's ability to otherwise set a balanced budget.

The Council must consider the need to set a balanced budget that enables it to provide the services required by its customers. The significant risks facing the future financial stability of the Council have been considered along with the strategic revenue projection's assessment of the future reductions in resource levels that have been predicted to follow the next spending review. The Council has set a Council Tax increase of 1.99% in order to improve resource stability in the period of the strategy.

In addition the Council has considered the levels of exemptions from Council Tax, for which it has flexibility, with the intention of improving the yield from Council Tax other than through the increase in the charge. This has meant reductions in the period or level of some exemptions available in the borough.

3.7 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 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 portfolio's detailed budget preparation work.

For 2014/15 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 #% increase in expected income.

The tables 3 and 4 below show the expected level of resources for each year of the strategy and any pressures that will affect the level income or its collection.

Strategic Issues	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Revenue Support Grant	3,274	2,251	1,463	922	420
Retained Business Rates	2,903	2,983	1,896	2,889	2,893
Council Tax	12,939	13,162	13,464	13,772	14,087
Fees & Charges	7,837	7,841	7,841	7,841	7,841

[Table 3: Resource and income indices]

Strategic Issues	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Council Tax Benefit Admin	25	75		100	
Income reduced by Regeneration Projects		100	50		

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

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 1st April 2013 totalled £12.58m and it is estimated that this balance will be £4.97m by 1st April 2014.
- 4.3 The major items reducing the balance are approved budget carry forwards of £5.52m from 2012/13 resources into 2013/14 for prior agreed purposes and the approved use of the 2011/12 and 2012/13 under spend on the revenue budget of £1.38m.
- 4.4 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.
- 4.5 Currently, balances comprise a general balance and a series of specific allocations, the breakdown of these is given in Table 5 below.

Balances	01/04/2013 £,000	01/04/2014 £,000	01/04/2015 £,000
General Balance	10,384	2,783	2,783
Trading Account Surpluses	179	179	179
Asset Replacement	127	167	167
Invest to Save Initiatives	518	558	598
Local Development Framework	523	0	0
VAT Reclaim	852	798	746
Commercialisation	0	500	500
Grand Totals	12,583	4,985	4,973

[Table 5: Revenue balances]

5. Efficiency

- 5.1 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.
- 5.2 The Council uses a number of measures to identify locations to achieve efficiency and 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 area.
 - 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 toward achievement of corporate objectives.
- 5.4 The adoption of efficiency and VFM 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 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	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Annual Savings Requirement	1,254	1,446	1,167	1,241	796
Percentage of Net Revenue Spend	6.6%	7.9%	6.5%	7.1%	4.6%

[Table 6: Annual savings requirement]

- 5.6 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 support the requirement through to 2016/17. 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) Limitations on Council Tax increases;
 - e) Fees and charges;
 - f) Capital financing;
 - g) Prudential Borrowing;
 - h) Horizon scanning;
 - i) Delivery of efficiency;
 - j) Collection Fund, collection rates;
 - k) Business Rates pooling;