

Medium Term Financial Strategy

2016/17 - 2020/21



1.0 Introduction

This strategy provides the financial planning framework for the delivery of services and priority outcomes to the residents of South Kesteven. It sets the context for the resource planning process and its integration with other strategic documents. In particular, it underpins the actions contained in the latest Corporate Plan.

2.0 Purpose

The Medium Term Financial Strategy (MTFS) assists with:

- The delivery of the Corporate Plan ambitions and the key strategies and policies
- Improving financial planning and the financial management of the Council's revenue and capital resources
- Maximising the use of resources available to the Council, both internal and external
- Ensuring that the Council provides value for money
- Allowing the development of longer term budgeting and strategic planning
- Reviewing the Council's reserves policy to ensure that the priorities are adequately resourced and there is financial protection against unforeseen events
- Responding to financial pressures and protecting front line services

3.0 Objectives

The main objectives of the MTFS are to:

- Explain the financial context within which the Council is set to work over the medium term
- Introduce priority led and outcome focussed budgeting, aligning resources in a flexible and responsive way
- Identify the financial resources needed to deliver the Council's priority outcomes
- Provide a cornerstone for the overall Budget and Policy Framework within the Council
- Establish a clear set of principles which underpin financial planning and ensure all resources are maximised
- Align financial resources to the Council's spending priorities and service outcomes
- Inform and support the delivery of key strategies and plans
- Enable the Council to withstand unforeseen financial pressures

4.0 Scope

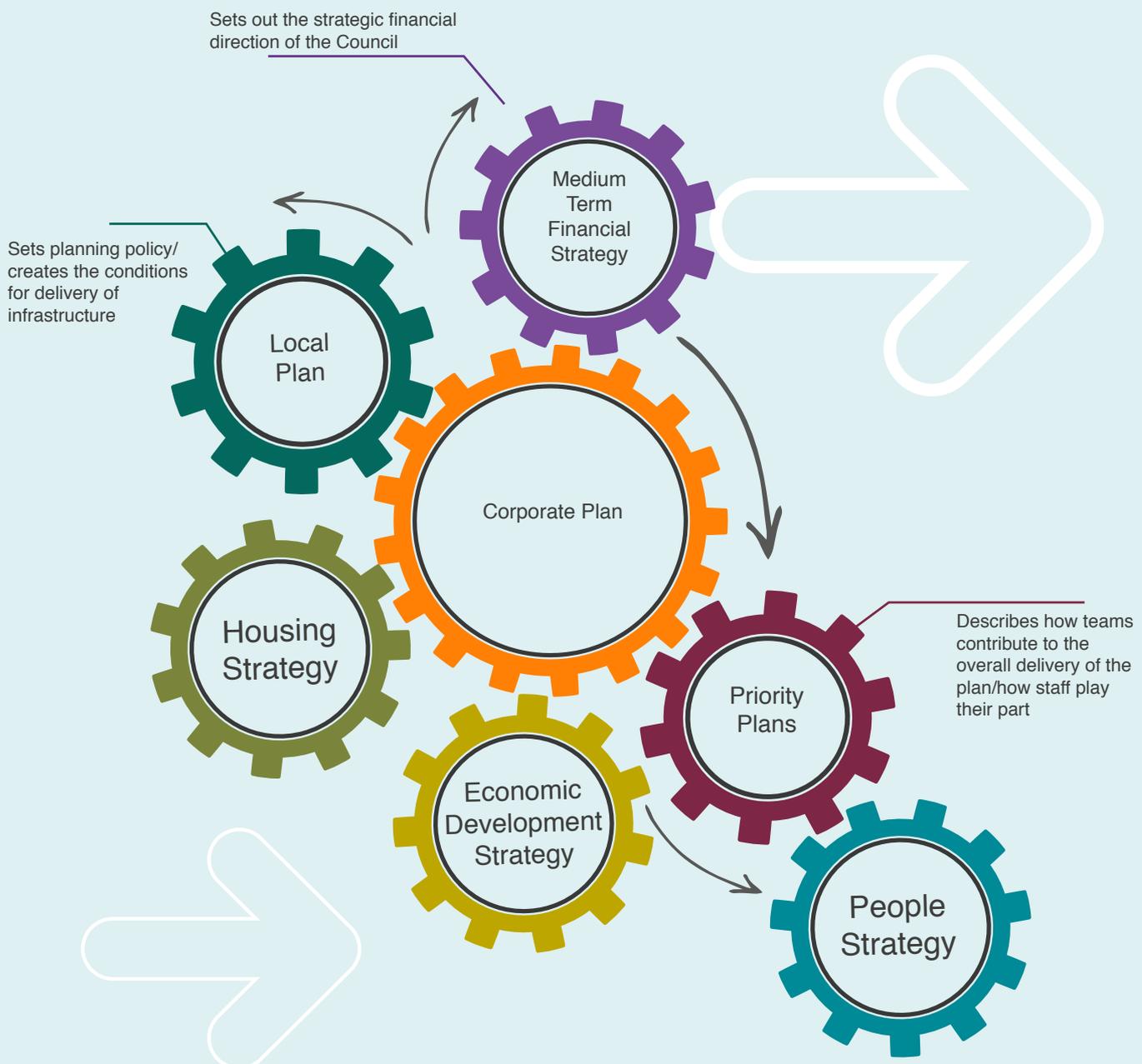
This strategy document covers all aspects of the General Fund, which deals with services that are provided for the residents and businesses of the district. The General Fund derives the majority of its income from charges, government grants, council tax and business rates. Along with this, the Strategy considers the Council's Capital Investment plans. The Housing Revenue Accounts (HRA) aligns and supports the corporate ambitions and is underpinned by the Housing Strategy and the HRA Business Plan. These are not included within the scope of this strategy.



5.0 Strategic Context

The Council has a developed strategic framework that interlinks a number of key strategies that support the delivery of the ambitions of the Council. The Medium Term Financial Strategy is an important element of these plans and identifies how the Council aligns its resources to achieve its ambitions.

The diagram below demonstrates how all the strategies fit together to set the direction of the Council;





The Corporate Plan sets out the five year ambitions for the Council and how these will be achieved. It sets out clear policy directions which will help the Council achieve its ambitions. The two main strands of the Corporate Plan that are designed to achieve the Council's goals are:

- **We are open for business**
Providing opportunities for sustainable growth by facilitating the development of a wide range of homes that people need and encouraging businesses to locate and expand in the district.
This will involve:
 - o Creating the right environment for housing and business growth
 - o Creating a local community where people want to live, work and invest
 - o Putting our customers at the heart of everything we do
- **We are commercially and customer focused**
Ending our reliance on annual Government grants and making it easier for people to do business with us.
This will involve:
 - o Working towards being self sufficient by 2019/20
 - o Using customer insight and intelligence to inform future service delivery models
 - o The effective use of resourcesIn addition, the Council is developing a Local Plan and Priority Plans that will set out the strategic direction and how teams will assist the Council in achieving its ambitions.

6.0 Financial Context

Medium term financial planning remains difficult and the strategy has been prepared against the background of austerity and continuing funding reductions for the public sector. In addition, there is great uncertainty over the future of key funding streams specifically in relation to the localisation of business rates and New Homes Bonus. A key theme emerging from the government is the drive towards financial independence for Local Authorities. In practice, this means a reduction in level of direct funding from Central Government and a shift of emphasis from national to local revenue sources.



7.0 Local Government Funding

Local Government funding has gone through a significant period of change in recent years and further changes are anticipated. The Government's stated intention is to move away from central grant funding Councils to a funding platform based on local housing and business growth.

To allow the Council to plan for the future with more financial certainty, the Government has announced a four year funding deal for the period 2016/17 to 2019/20.

The Government's settlement for four years is set out below:

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Revenue Support Grant	1,700	960	490	0
Baseline Funding*	3,360	3,420	3,530	3,640
Settlement Funding Level	5,060	4,380	4,020	3,640

*Baseline funding is the minimum level of funding government states SKDC require from business rates income but does not represent actual funding.

The council also generates its income from fees and charges, New Homes Bonus and Council Tax income. Over the four year period shown the projected New Home Bonus and Council Tax income is:

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
New Homes Bonus	3,975	3,440	2,262	2,136
Council Tax	6,572	6,837	7,113	7,401

These additional resources will be driven by the local housing growth and combined with the settlement fund level will fund the delivery of the spending plans as forecast below:

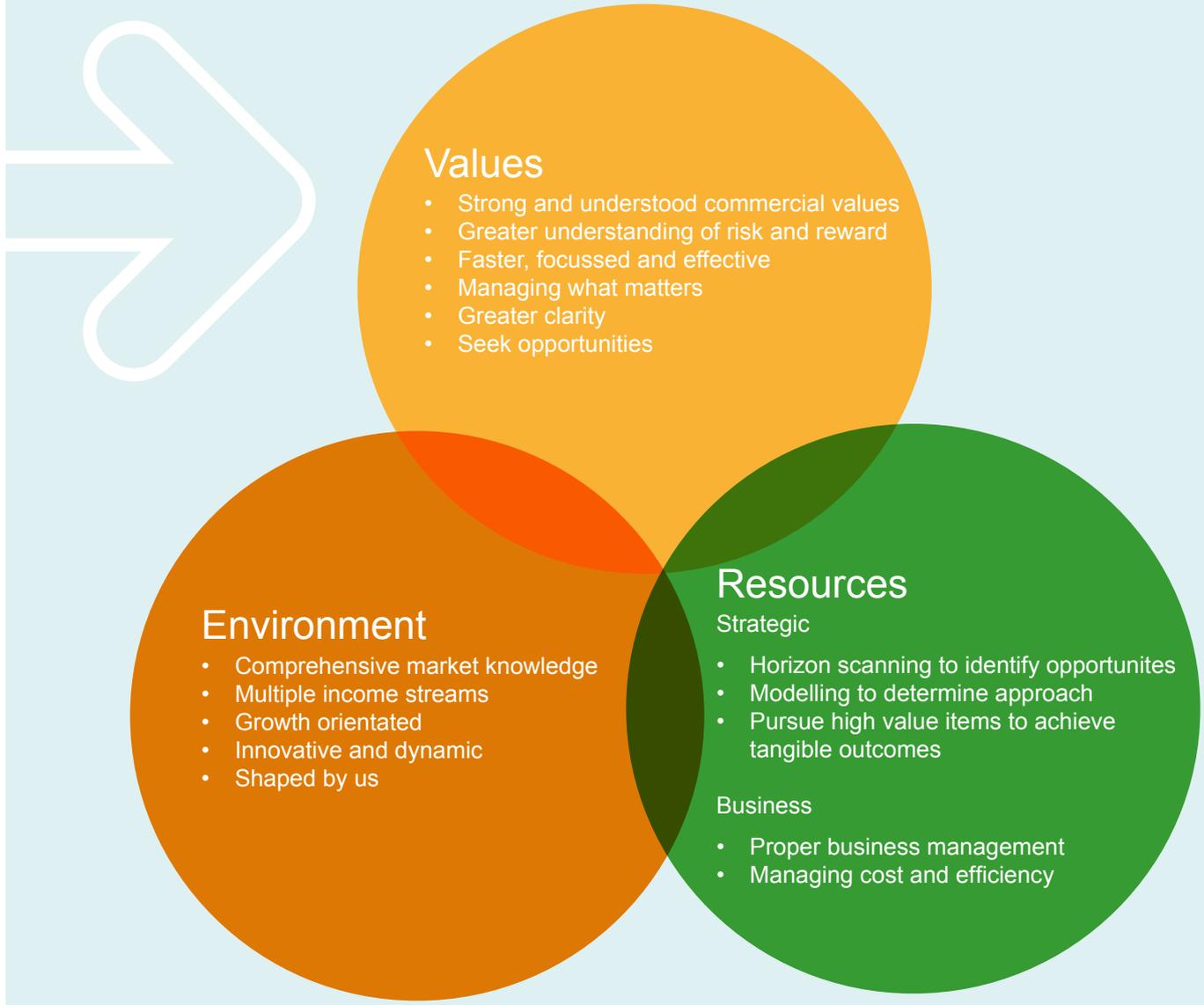
	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Available Resources	15,607	14,657	13,395	13,177

Budget Management

The Council has produced a three year balanced position as a result of effective budget management and has in place plans to be financially self-sufficient by 2019/20. However, the emphasis of the MTFs is to ensure the Council creates financial headroom by supporting a business-like environment that maximises the opportunities to generate additional revenue.

Developing a business-like approach to budget management has enabled resources to be maximised in order to establish investment opportunities without necessarily relying on Council tax and fees and charges. The direction of travel is to move away from an annual incremental budgeting approach to a longer term outcome focused budgeting model that allows resources to be deployed where needed. This approach will enable the Council to manage and deploy resources in a way that will allow greater flexibility and widen ownership in order to get the best outcomes. This will be underpinned by a robust governance framework with informed decision making.

The culture of the Council is changing in order to adapt and embrace the new budgeting model and budgets are being managed with a corporate, business-like ethos. This is underpinned by establishing an operating environment which is supported by values and resources.



8.0 Financial Principles

In order to underpin our business focused flexible approach a number of principles are established that support the Council fulfilling its ambitions. These principles will allow the resources available to be used proactively and responsively.

Principle 1 - Council Tax levels shall be set each financial year having regard to the prevailing financial conditions at that time and government guidance.

This will provide the Council with the flexibility to consider the financial conditions and budgetary position prior to considering a Council Tax level for the following financial year. The Council would look to maximise opportunity from other funding areas before considering Council tax levels.

Principle 2 – Fees and charges should be reviewed annually and changes should have regard to the priority outcomes.

Charges should be considered within the context of the outcomes that are to be achieved from the service and classified between cost recovery or an agreed subsidy level. The Council may receive income by providing services for others.

Principle 3 – the monies received from New Homes Bonus should be used to fund the delivery of Council priority projects and initiatives.

New Homes Bonus receipts should be specifically allocated to fund one off initiatives and not recurring expenditure and be focussed on priority outcomes.

Principle 4 – Maximise the resources available for the review of business rates arrangements.

On an annual basis, assess the financial viability of the pooling arrangements in order to determine whether the Council continues to be a pool member. The Council will endeavour to maximise the opportunities offered by the move to 100% retention.

Principle 5– Develop and implement a modern, flexible and responsive budget management system that aligns resources to outcomes and enables resources to be re-allocated during the year to respond to pressures and capacity needs.

The council will seek regular feedback from the community in order to respond to changing priorities. It will introduce priority based budgeting that aligns resources to outcomes and underpins the business-like approach to the Council achieving self-financing and regularly consult with stakeholders to ensure the Council delivers community priorities.

Principle 6 – Regularly review and monitor the Treasury Management and Capital Framework with particular focus on the opportunities for borrowing compared with the cost of holding the debt. Ensure the Treasury Management Strategy provides a flexible framework that enables borrowing and investment to be undertaken to fund capital projects and schemes

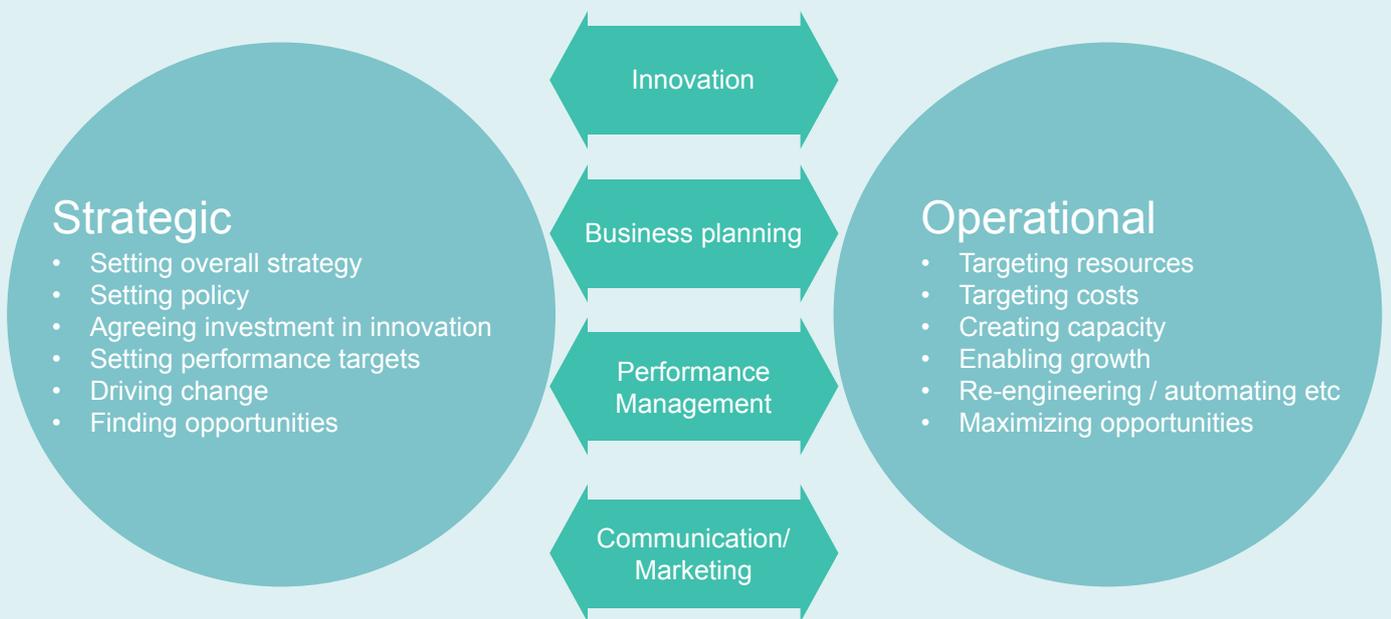
Principle 7 - Regularly review the Council's asset portfolio to ensure they directly contribute to the delivery of priority outcomes.

Utilising the Asset Management Plan, undertake regular review of the asset portfolio to assess their contribution to the Council priorities and consider disposal of surplus assets in order to utilise the receipts to contribute towards future capital schemes.





Utilising these principles to drive forward financial planning and resource alignment will ensure that the Council's ambitions can be realised within a business focussed culture. Whilst the MTFS will provide the strategic framework of financial planning, underpinning it will be a shift of focus to support the corporate ambition of being business like and moving towards ending the reliance on annual Government grants.



9.0 Capital Programme



The Capital Programme is prepared annually with a five year focus providing a medium term timescale in which to identify the resource implications of funding and delivering the schemes. The programme will include capital schemes that support service delivery, investment in assets and specific projects which are linked to the Council's corporate plan objectives and priorities. The programme is driven by the Corporate Plan ambitions and underpinned by ensuring the need to obtain maximum value for money.

The Capital programme is reviewed regularly and it is important that the projects have: strategic links to the corporate priorities; procure and/or maintain assets required for service delivery; address health and safety issues; and/or meets the requirements of any grant monies received. Financing of the capital programme requires careful consideration in order to identify the most appropriate funding method having regard to available internal resources and external borrowing opportunities.

The main options available for funding the Capital Programme are as follows:

- Capital Reserves – reserves made up from previous capital contributions.
- Capital Receipts – generated from sales of capital assets.
- External Funding – usually in the form of grants or funding contributions.
- Revenue Contributions – made from the General Fund Revenue Account.
- Borrowing – borrowing with repayments of Principal and Interest (timings depending upon loan type).

Detailed option appraisals will be undertaken when financing the capital programme to determine the most appropriate funding model.

Use of Prudential Borrowing

The Council has the opportunity to access external borrowing at preferential interest rates (utilising Public Works Loans Board) or consider utilising available reserves (internal borrowing) to fund capital schemes. There are financial consequences of any financing decision and financial appraisals will be undertaken to determine the most appropriate funding model. Careful planning is required when considering the funding options. In particular, the Council will take into account the loss of investment income when using reserves or receipts and the cost of borrowing on the revenue account.



10.0 Reserves and Balances

The Council holds a number of funds and reserves for various specific, capital or general related policies to help to assist in the funding for delivering the priorities of the Council or to mitigate some of the funding risks identified above. These reserves are split into;

- Revenue Reserves – earmarked for specific issues.
- Unapplied Grants – grants received but not yet utilised or grants where the conditions have not yet been fully met.
- Working Balance – general reserve for meeting risks in the annual General Fund budget (e.g. reduced income levels, unforeseen expenditure).
- Capital Reserves – including capital receipts and utilised for funding the Capital Programme.

Reserves Policy

- The working balance will be maintained at approximately 10% net cost of services to cover any major unforeseen expenditure. The Council aims to balance its revenue budget over the period of the MTFS without reliance on the General Fund working balance.
- The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities.

The Council will undertake a review of all reserves twice annually at closedown and budget setting. The review process covers each individual reserve and identifies;

- The purpose for which the reserve is held
- An assessment of the appropriate level of the reserve to meet potential future liabilities in line with the Council's reserve policy and aligned with the risk management framework.
- Procedures for the management and control of reserves
- A flexible framework to allow more frequent reserve reviews if required to ensure continuing relevance and adequacy.

Use of Reserves

The use of reserves is finite and priority is given to invest to save initiatives that assist the Council in achieving its corporate plan objectives. The use of reserves is maintained in line with the principles of the MTFS and the outcomes of the regular reviews.

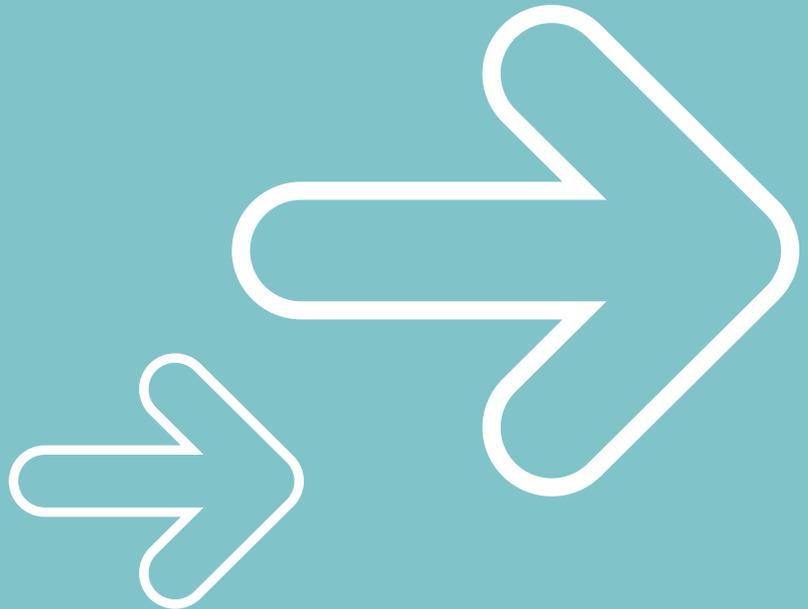


11.0 Risk Assessment

A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure that all risks and uncertainties affecting the Councils financial position are identified. The key strategic risks aligned to the MTFS are:

Description of Risk	Assessed Risk (Prior to Mitigation)	Risk Management - Mitigation	Residual Risk (Post Mitigation)
Future availability of revenue and capital resources from various funding streams is less than planned/ budgeted	High	Effective resource management/ allocation linked to Corporate Plan priorities and community outcomes. Development of longer term and business like approach to financial planning and financial management	Medium
Income targets not achieved	High	Effective financial planning and monitoring through the MTFS and annual budget management process	Medium
Anticipated savings/efficiencies not achieved	High	Effective financial planning and monitoring through the MTFS and annual budget management process	Medium
Reducing investment levels and potential impact on capital financing and ability to fund Capital Programme	High	Maintain effective and flexible Treasury Management Strategy to inform decisions about the use of reserves and when considering alternative funding and investment opportunities. Asset Management Plan is linked to corporate priorities	Medium
100% Business Rates Retention opportunities are maximised	High	Effective Economic Development Strategy and land allocations that encourages growth and inward investment	Medium
Volatility of Business Rates funding and availability of New Homes Bonus	Medium	Although outside of Council control, impact is mitigated by the establishment of an earmarked reserve and close financial monitoring	Low





South Kesteven District Council
Council Offices
St Peter's Hill
Grantham
Lincolnshire NG31 6PZ

t. 01476 40 60 80
e. pr@southkesteven.gov.uk
w. www.southkesteven.gov.uk

This medium term financial strategy is also available in larger print and braille, on our website, on CD or in other languages.

