Gravesham
Borough Council

Medium Term Financial Strategy

Gravesham Borough Council

2016-17 – 2019-20

Table of contents

1. Executive Summary

1.1 This strategy forms a key part of the Council's policy, service planning and performance management framework and sets out how the Council will plan for and meet the financial challenges it faces over the medium term as a means of delivering a robust and stable financial basis on which to deliver quality council services.

1.2 The Government's offer of a four-year funding settlement for councils has provided certainty around core government funding to 2019-20 which, in turn, has enabled the Council to strengthen its financial management over this period and develop this Strategy. During the period of this Medium Term Financial Strategy (MTFS), the Council expects:

- Unprecedented reform of local government finance and the need for the Council to become 'self-sufficient'.

- Ongoing reform of the delivery of housing landlord functions and the setting of rental and associated charges for social housing.

- Increasing demands on services driven by demographic demands, growing complexity of community need and rising expectations from service users.

1.3 The strategy sets out the challenges faced by the Council and its financial projections at budget setting for 2016-17, whilst also outlining the action being taken to enable the Council to respond positively to these financial challenges and become increasingly independent from central government funding. The core principles underlying the MTFS are:

- To ensure that the finite resources available are aligned to the Council's corporate objectives.

- To seek to maintain a sustainable financial position over the MTFS period.

- To preserve a minimum level of £3.25m General Fund working balances and a minimum level of £3m Housing Revenue Account working balances.

- To ensure that decisions relating to Council Tax Setting are made with due regard to the guidelines issued by the Secretary of State.

1.4 This strategy is endorsed by the Leader of the Executive, Chief Executive and the Director (Corporate Services) as S151 Officer.

John M Cubitt	Leader of the Executive	………………………………
David R Hughes	Chief Executive	………………………………
Stuart J Bobby CPFA	Director (Corporate Services)	……………………………...

2. Introduction

2.1 Gravesham Borough Council has a strong track record in managing its financial resources. The Council's external auditor, Grant Thornton, commented in their report on the audit of accounts for 2014-15 that:

- The Council has robust systems and processes in place to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to operate for the foreseeable future.

- The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

2.2 This said, the announcements of the 2015 Autumn Statement and Spending Review and subsequent local government finance settlement have seen far more dramatic reductions to funding, and at a more accelerated rate than had been anticipated. To respond to these announcements the Council will need to take some significant decisions about the way it operates and delivers services to its communities.

2.3 This strategy forms a key part of the Council's budget and policy framework, and sets out how the Council will plan for and meet the financial challenges it faces over the medium term as a means of providing a robust and stable financial basis on which to deliver quality council services.

2.4 The strategy covers both the General Fund (GF) Revenue Account (concerned with the day to day running of council services excluding the Housing Revenue Account) and the Housing Revenue Account (HRA) (which records income and expenditure associated with the provision of council dwellings and related services).

2.5 The Medium Term Financial Plan (MTFP) and the HRA Business Plan provide numerical representations of the Council's financial projections over a period of ten years (30 years for the HRA Business Plan) and are informed by the MTFS. The MTFP and HRA Business Plan are regularly reviewed and updated to ensure that they continue to reflect the best estimates of likely levels of spending and income and takes into account any in-year agreed changes to budgets.

3. Strategic Direction

3.1 The Corporate Plan is the key document for setting the strategic direction of the Council. The plan is developed through consideration of local priorities, understanding the key community characteristics of the borough, consultation with residents, businesses and key stakeholders in the borough and government policies.

3.2 The Corporate Plan 2015-19: Delivering for the Community was adopted by Full Council in October 2015 and set the four strategic objectives of the Council as being:

Safer Gravesham – where local residents and visitors can live, work and travel in a safe, clean and green borough.

Stronger Gravesham – a healthier more cohesive community where children have the best start in life and people are proud to call home.

Sustainable Gravesham – a thriving and sustainable local economy, built on the foundations of high quality regeneration and development projects.

Sound and self-sufficient council – a well-run and innovative council supporting its staff to realise commercial opportunities whilst transforming its services to deliver at the best possible value for money.

4. General Fund Revenue Spending – Available Resources & Pressures

Background

4.1 The system of funding for local government has significantly changed since 2010, moving from a situation where local authorities were significantly dependent upon Central Government support to one where the Council is becoming increasingly reliant on localised funding sources, with greater exposure to risk and opportunities coming with this. Public sector services and local government in particular, have had to respond to significant changes and on-going reductions in Government Grant funding whilst also grappling with increasing demand for services and changes in the legislative environment in which it operates.

4.2 Funding for General Fund Services is current delivered through three primary funding streams –Revenue Support Grant, the Business Rates Retention Scheme and Council Tax. This is supplemented by monies the council receives by way of fees and charges, rental and investment income and other grants and contributions.

4.3 The Council receives funding from government through the New Homes Bonus Scheme and has made a policy decision that such funding it taken directly to working balances when received.

4.4 Some support to annual revenue expenditure is provided through the use of reserves to fund one-off or significant known areas of expenditure, though reserves are only able to be used once.

Central Government Support

4.5 On 17 December 2015 the provisional local government finance settlement (the settlement) for a four-year period (2016-17 to 2019-20) was announced by the Department for Communities and Local Government (DCLG). This confirmed that austerity would continue in local government for the forthcoming Parliamentary period. For Gravesham, the headline figures of the settlement for Gravesham Borough Council were as set out in the table below.

Final Settlement Funding Assessment	**2015-16 Final Settlement**	**2016-17 Provisional Settlement**	**2017-18 Provisional Settlement**	**2018-19 Provisional Settlement**	**2019-20 Provisional Settlement**
Revenue Support Grant (RSG)	£2,019,670	£1,225,770	£590,150	£196,260	£0
Business Rates Retention Baseline Funding Level	£2,690,920	£2,713,350	£2,766,710	£2,848,330	£2,695,656
Transitional Funding	--	£11,250	£11,210	--	--
Settlement Funding Assessment	**£4,710,590**	**£3,950,370**	**£3,368,070**	**£3,044,590**	**£2,695,656**
£ Change (to Prev. Yr)	--	-£760,220	-£582,300	-£323,480	-£348,934
% Change (to Prev. Yr)	--	-16.14%	-14.74%	-9.60%	-11.46%
% Change (to 2015-16)	--	-16.14%	-28.50%	-35.37%	-42.77%

4.6 Since the beginning of the austerity measures introduced by the Government which began in 2010-11, the overall level of Central Government Grant received by this authority will have reduced from £7.6m to £2.7m by 2019-20. This represents a cash reduction of £4.9m (65%) over the nine-year period.

4.7 By 2019-20 Gravesham will be increasingly reliant on the level of income it can generate locally.

New Homes Bonus

4.8 The Council receives New Homes Bonus (NHB) funding each year based on the number of new homes built in the district and the number of empty homes brought back into use. Annual funding is currently paid for six years. The Council has secured indicative NHB funding for 2016-17 of £213,870, taking the total funding receivable under the scheme in 2016-17 to £1,841,960.

4.9 Central Government has announced the intention to continue the New Homes Bonus Scheme indefinitely but change the methodology of the scheme from 2017-18 onwards by reducing the scheme from six to four years and reforming the incentive of the scheme. If implemented in 2017-18, as is Central Government's desire, analysis indicates that this will reduce the level of total funding from the scheme by around one-third in 2017-18, based on the historic annual level of growth in homes in the borough of 0.6%.

Business Rates

4.10 The Business Rates Retention Scheme was introduced by government to incentivise councils to deliver growth through encouraging business development and new business set-up. Under the scheme, the Council retains 40% of locally generated business rates up to a baseline level determined annually by Central Government; previously the Council would pay over all business rates collected to the government for redistribution in the form of central government grant.

4.11 In order to maximise the level of business rates retained locally, the Council has been part of the Kent Business Rates Pool since 2015-16. The establishment of the pool delivers the benefit of enabling the levies on business rates growth payable by the districts to be offset by the tariff payable by the County Council and Kent Fire, thus enabling more business rates income to be retained locally.

4.12 The Business Rates Retention Scheme implemented in April 2013 has introduced an unprecedented level of volatility to the council, not least around anticipating the cost of successful appeals against rateable values which, under the scheme, fall entirely to the district council, County Council and Kent Fire to meet, even where this is backdated beyond the start date of the scheme.

4.13 Announcements in the Spending Review in November 2015 set out Government's intention to significantly change the Business Rates Retention Scheme to allow local government (including counties, unitary and district authorities) and Fire & Rescue Services the ability to retain business rate revenues to fund local services. As part of these reforms, local government will be given additional responsibilities. Further details on the proposed changes to the scheme have not been released, and the level and specific nature of additional responsibilities have not been defined, though indications are that these responsibilities may include public health duties and the administration of Housing Benefit for pensioners and the Attendance Allowance. It is considered likely, though, that changes to the scheme will intensify the volatility that already exists in this funding stream as well as resulting in new duties that local government will be expected to deliver.

Council Tax

4.14 The level of Council Tax levied each year is a decision taken locally by the Full Council, with due regard to the Council Tax Referendum Limit set each year by the Secretary of State. Where a council proposes to increase Council Tax in excess of this limit, it is required to hold a referendum to obtain the approval of local electors in accordance with the requirements of the Localism Act 2011.

4.15 The final Council Tax Referendum Principals for 2016-17 published on 8 February 2016 set an increased Council Tax Referendum Limit for district councils, such as Gravesham, of the higher of 2% or £5. Gravesham Borough Council determined to make use of this flexibility, increasing its element of Council Tax for an equivalent Band D property by £4.95 (2.7%) to £186.66.

4.16 Each 1% increase in Council Tax yields just over £60k.

Localised Support for Council Tax

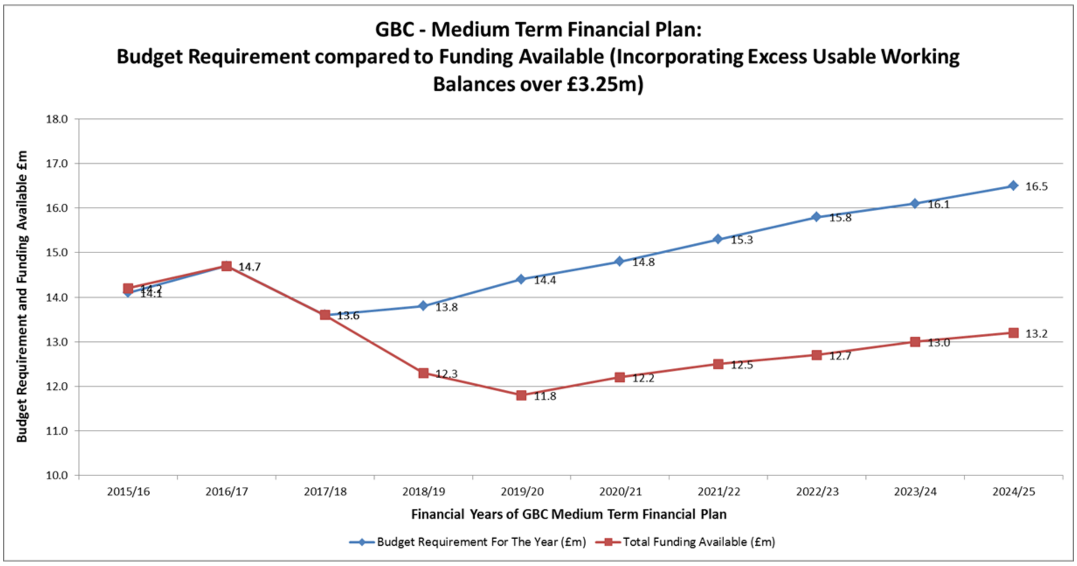
4.17 The Localised Council Tax Support Scheme commenced in April 2013 and saw the Council adopt a scheme where Council Tax Support for those of working age reduced by 18.5%. The localisation of the Scheme has resulted in the council again being exposed to greater volatility as the scheme cannot take into account changes in demand for Council Tax support, exposing the council to the risk that the value of Council Tax support provided exceeds the level of Government grant received, thereby resulting in budgetary pressure upon the council to meet such a shortfall.

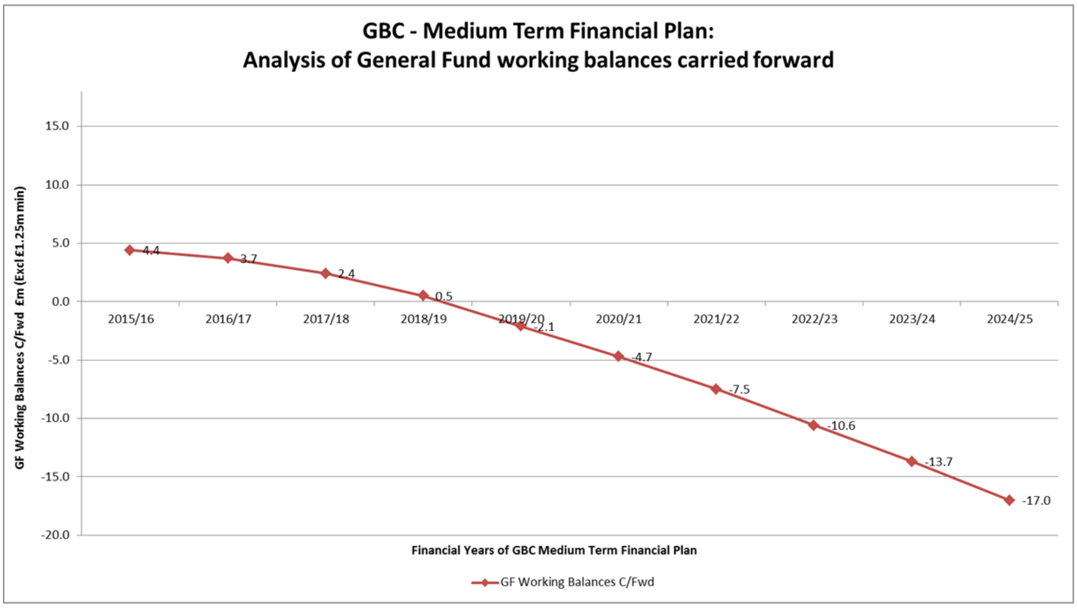
4.18 A Kent-wide review of current schemes is currently being carried out with the intention of informing the approach taken in respect of future schemes from April 2017-18.

Financial Planning

4.19 The Medium Term Financial Plan (MTFP) provides a numerical representation of the Council's General Fund financial projections over a period of ten years.

4.20 The MTFP presented at Budget Setting for 2016-17 reflected the provisional local government finance settlement announcements and action up to that point to challenge budgetary provisions and review the robustness of assumptions around staffing costs, investment returns, business rates and council tax income. This placed the Council in a position where, if no other action was taken, the Council would utilise all of its Working Balances above the £3.25m level by 2018-19, as shown in the following graphs.





4.21 The funding gap was estimated to be £1.5m in 2018-19. This requires an additional £1.2m of savings to be delivered by 2018-19 from that assumed in September 2015. The funding gap rises to £2.5m by 2019-20.

5. General Fund Revenue Spending - Bridging the Gap

5.1 As set out in the previous section of this report, the General Fund is facing significant financial challenges over the next four year period. To bridge the resourcing gap which has been identified, the Council will need to effect a number of strategies to ensure that it is able to optimise income generation, be innovative in the delivery of services and ensure that resources are appropriately focused on the needs and aspirations for the borough.

5.2 In the light of future financial challenges facing the Council, it has become even more important that the increasingly limited revenue and capital resources are aligned with key policy priorities. This will require the Council to focus more clearly on core services and priorities, whilst making some difficult decisions about service delivery and income generation options, potentially increasing the Council's exposure to risk.

<u>Optimisation of Income Generation</u>

5.3 **Property Acquisition Strategy**

The Council has set aside £10m of its investment balances to acquire commercial properties to obtain a rental income stream. This will form a long term investment for the Council. Delegated authority is in place for decisions on property acquisition (and disposal) to be taken by the Chief Executive or Director (Corporate Services), supported by a cross-party working group.

Based on the criteria for selecting investment properties, it is anticipated that at the point of full investment, the strategy will deliver an additional £400,000 income to the council each year that is currently not reflected in the MTFP. This compares to £60,000 the same £10m would return by placing with Banks, Building Societies and Money-Market Funds.

5.4 **Property Funds**

The Council has identified a further £10m of its investment balances that is to be placed into Property Funds. These are funds that offer the Council the opportunity to invest in a diversified portfolio of commercial property without the issues of management, maintenance and repairs and with the additional benefit of improved liquidity, but for an investment return. Again, this will form a long term investment for the Council.

Delegated authority for investing in Property Funds has been given to the Chief Executive and the Director (Corporate Services), though in practice any decision to invest will be taken with support from a cross-party working group.

Historic performance of Property Funds indicate that at the point of full investment, the strategy will deliver an additional £400,000 income to the council each year; projections on potential returns from Property Funds have been reflected in the MTFP.

5.5 Fees and Charges

The Local Government Act 2003 introduced the power for local authorities to charge for discretionary services – those services that a council has the power to, but is not obliged to, provide.

The authority has in place a Charging Strategy which outlines the key considerations of the council to ensure that fees and charges for services are set in a transparent and consistent manner. The Strategy is based on the principles that services should maximise opportunities for income generation where there is the ability to do so, as a minimum seeking to cover the full costs of providing the service.

The Council will continue to undertake at least an annual review of its fees and charges and it is envisaged that this will deliver a further £270k over the period.

5.6 Sponsorship and Advertising

The Council has been successful in the past in generating ad-hoc sponsorship for events. It is intended to further work in this area by building a sponsorship and advertising strategy to maximise opportunities for the Council to generate advertising and sponsorship income.

5.7 Council Tax

Council Tax has become an increasingly important method of raising income and therefore future decisions in relation to Council Tax Levels and the Council Tax Base are even more significant in delivering a sustainable MTFP.

The financial projections of the Council assume that the referendum limit of the higher of 2% or £5 remains in place until 2019-20 and that the Council sets annual council tax at the maximum permitted each year without being required to hold a referendum.

Annual projected growth in the council tax base is based on historic annual growth of 0.6%. Work will be undertaken to robustly challenge the assumptions made in setting the Council Tax Base each year and ensure that it is set using the most accurate information, particularly in relation to growth projections.

5.8 Business Rates

Business Rates provides another significant funding stream for the Council and brings with it both opportunity and volatility. The Council will remain as part of the Kent Business Rates Pool whilst it continues to offer the opportunity for an increased level of business rates to be retained locally.

Growth in business rates in the period to 2019-20 has been anticipated as being in line with the projected increases in the baseline funding as per the final local government finance settlement. Work will be undertaken to continuously monitor the performance of business rates though the revaluation exercise due to take place in 2017 and the proposed changes to the Business Rates Retention Scheme currently offer little certainty from this income stream.

Innovation in Service Delivery

5.9 Service Review Process

The Council has developed a process which it is intended to identify opportunities to reduce the Council's net expenditure, either through delivering services in different ways or at lower cost, increasing income generated by services provided by the Council, or identifying where there is potential to cease the provision of some services altogether.

Service reviews have been undertaken for all front-line services and a number of service options have been developed from these intended to offer a number of options for future service delivery. Options for implementation will be selected over the next year with a view to increasing efficiency in the services delivered by the Council while protecting those most valued by the community. It is anticipated that these options will deliver net expenditure savings of £1.4m over the period to 2019-20.

5.10 Shared Services

The Council has a successful track record in working with partners and other local authorities to deliver services in a more collaborative manner. The Council will continue to proactively look for new opportunities to share services and seek to further develop the arrangements it already has in place, such as moving to a fully shared service with Tonbridge & Malling Borough Council for Revenues & Benefits. It is anticipated that such activity will deliver savings of £240k over the next four years.

5.11 Change Strategy

The Council recognises the need to ensure that it has the necessary support and structures in place to implement changes to service delivery, making effective use of the finite resources it has. This commitment to change is reflected in the Change Strategy of the Council, which is appended to this strategy and sets out three areas of change activity for focus – the identification of change needs, planning for and implementing change in processes.

5.12 Working with Others

The Council recognises the importance of working with others in the public, private and voluntary sectors to deliver its vision for the borough, tackle complex and cross-cutting issues, co-ordinate services, increase capacity and resilience and ultimately improve customer satisfaction and secure value for money.

The Council is actively involved in developing proposals for Kent and Medway to devolve powers from Government.

Financial Discipline

5.13 **Budgetary Control**

The Council has a strong track record in managing its financial resources that has been recognised by the External Auditor. This said, the Council recognises that strong financial control is going to be a central plank to managing its financial position over the next four years. To this end, the Council will be seeking to continue the development and robustness of its financial management, monitoring and planning arrangements.

The Council will also undertake specific exercises to challenge spend and budgetary provisions and ensure that budgetary provisions remain fit for purpose, particularly given the changing face of the organisation. The outcomes from this exercise, and those further listed in this section, are anticipated to generate £200k saving over the period to 2019-20.

5.14 **Review of Reserves**

In addition to the annual review of reserves, an exercise will be undertaken to provide in-year challenge to the purpose and funding/spend profiles of the Council's reserves, with a view to providing assurance that they continue to be provided in the best interest of the Council.

5.15 **Procurement**

The Council will be seeking to review its contractual relationships in order to confirm that these continue to support the delivery of the Council's objectives and offer the best terms for the Council.

5.16 **Conclusion - Anticipated Financial Position – 2019-20**

By implementing the above strategies to optimise income, innovate service delivery services and focus resources, the Council anticipates it will be able to respond positively to the challenges it faces over the next four years and emerge as a financially sustainable Council, as demonstrated below:

	£
Bridging the Gap Activity	
- Property Acquisition Strategy	**(400,000)**
- Fees and Charges activity	**(270,000)**
- Service Review Process Option Implementation	**(1,430,000)**
- Shared Services progression	**(240,000)**
- Budgetary Challenge Measures	**(200,000)**
TOTAL VALUE OF ACTIVITY	**(2,540,000)**

The delivery of these strategies will be monitored through quarterly review of the Medium Term Financial Plan as part of the Council's established budget monitoring arrangements, alongside subject specific reports to Members as appropriate.

6. Housing Revenue Account Revenue Spending – Available Resources & Pressures

Background

6.1 Section 74 of the Local Government and Housing Act 1989 requires every local housing authority to keep a Housing Revenue Account (HRA) for the purpose of recording the revenue expenditure and income relating to the provision of council dwellings and related services. It is an account that is ring fenced from the Council's General Fund with statutory guidance about the items that can be charged and credited to it. The Council has a legal duty to budget to ensure the account remains solvent and to review the account throughout the year.

Social Housing Policy

6.2 Since 2010 there has been significant changes to both the financial structure of housing provided by local authority landlords and the policy and legislative environment in which social housing in provided. Most significant was the introduction of Housing Revenue Account (HRA) Self Financing, which saw the abolition of the national housing subsidy system (which redistributed rental income nationally) in favour of the council retaining the rental income generated from their housing stock in return for the authority taking on a level of debt representative of the value of the stock. Whilst providing the council with financial autonomy over its HRA, Self-Financing has also had the effect of transferring financial risks to the council, particularly regarding volatility around rent receipts.

6.3 Central Government continue to legislate for changes to social housing provision. Reinvigoration of the Right to Buy, changes to Rent Reform and the proposed Welfare Reform and Work Bill and Housing & Planning Bill have all brought implications for the calculation of social housing rents and use and retention of housing assets, causing unmatched challenges to the on-going sustainability of the Housing Revenue Account.

Rental Income

6.4 As part of the Spending Review announcements in June 2013, the government announced its intention to move away from the rent setting formula of RPI + 0.5% + £2, instead moving to a formula of CPI + 1% annually to be applied from 2015-16 to 2024-25 (a period of ten years).

6.5 This was followed by the announcement in the Summer Budget 2015 that it was Central Government's intention to reduce social rents by 1% for each of the next four years. This has had the effect of reducing expected rental income in 2019-20 by around £3.5m compared to the level of rental income expected before these announcements.

Pay to Stay

The Budget 2015 set the intention from April 2017 for those in social housing and with higher household incomes (£30,000 in Gravesham) to be charged between 80% to 100% market rent. Whilst local authorities will be responsible for collecting the additional revenue, this will be paid over to HM Treasury. Current indications are that the policy will require the Council to pay over the anticipated additional revenue generated in advance of collecting actual rents. This could have an adverse impact on rent arrears and cashflow, as well as potentially placing additional administration responsibilities with the Council.

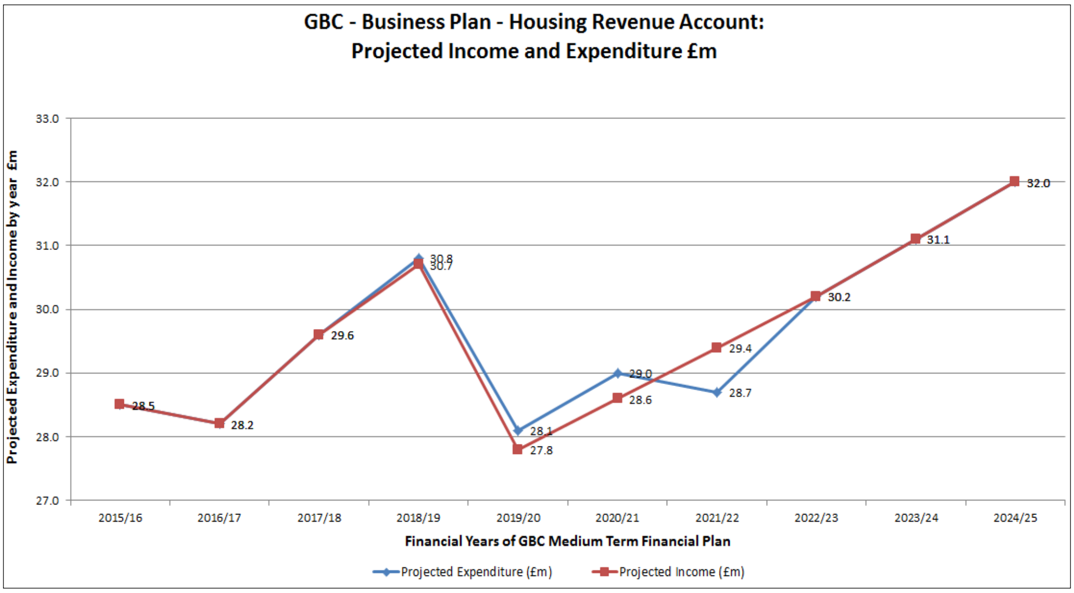
Sale of High Value Voids

6.6 Registered Social Landlords (RSLs) will be required to allow Right To Buy Sales at discounts of between 35 – 70% (with an upper limit of £78,000 in Gravesham). To compensate them, and maintain the level of social/affordable housing stock, RSLs will require sufficient funds from government to replace the properties they have sold. To generate the funds to compensate RSLs, central government will require Local Authorities to sell “high value” HRA properties as they become vacant at full market price. The funds generated will be used in the first instance by the Local Authority to replace the property that has been sold with a property of lower value, with the remaining sale proceeds passed to government, who will then pass this to RSLs.

Financial Planning

6.7 The HRA Business Plan shows how rental and other income will provide for the day-to-day management and repair requirements of the council-owned housing stock, fund the investment needs of the stock, servicing of the HRA debt and. It is the main tool for the financial management of the HRA.

6.8 The Business Plan presented at Budget Setting for 2016-17 reflected the government’s intention to reduce social rents by 1% for each of the next four years and work undertaken to adjust spending plans in response to this. The following graphs show that, based on information at the time of preparing the 2016-17 budget, there is some pressure on the HRA Business Plan between 2018-19 and 2022-23.



6.9 The impact of Pay to Stay and Sale of High Value Voids have yet to be reflected in the Business Plan as details of these policies have yet to be published. It is anticipated, however, that they will introduce further pressures to the Housing Revenue Account.

6.10 Ongoing monitoring of the HRA Business Plan will take place through the Council's established budget monitoring arrangements, alongside subject specific reports to Members as appropriate.

7. Housing Revenue Account Revenue Spending - Bridging the Gap

7.1 Whilst action taken has acted to mitigate the challenges to the Housing Revenue Account, the Council will need to progress a number of strands of work to ensure the on-going sustainability of the Housing Revenue Account. This work will follow many of the workstreams identified for the General Fund in Section Five of this Strategy:

- On-going review of staffing resource levels and deployment, including the introduction of an annual £100,000 vacancy savings target for the HRA;

- Extending the repayment profile of the Self-Financing Debt within the HRA over 38 years (rather than the 17years initially planned) by reflecting a Minimum Revenue Provision within the HRA, utilising HRA Reserves and, looking forward, considering internal/external borrowing options;

- Optimising additional income generated through applying Affordable Rent levels to New Build properties where possible and reviewing other fees and charges;

- Implementing Service Review Process options to reduce the net expenditure on Housing Services;

- Investigating and implementing options to work with others to deliver services in a more collaborative manner. Proactively looking for new opportunities to share services and seek to further develop the arrangements it already has in place;

- Seeking to improve processes employed for service delivery to ensure resources are effectively deployed;

- Continuing the development and robustness of financial management, monitoring and planning arrangements, including challenging spend and budgetary provisions, including reserves.

8. General Economic Pressures

Inflation

8.1 The Office for Budget Responsibility (OBR) published its most recent outlook on the latest economic and fiscal position in March 2016 (ahead of the EU Referendum) and predicted that inflation will return slowly to the 2% target within the next three years.

8.2 The MTFP incorporates a £200k increase in each financial year as provision for inflationary pressures on contracts and other services that are linked to inflationary increases. The effect of RPI and CPI effect is reflected in HRA Business Plan based on Office of Budget Responsibility projections.

Pensions and Salaries

8.3 The previous agreed pay award provided a 2.2% increase for the majority of staff for the period January 2015 to March 2016. In the Summer Budget 2015, the Chancellor announced the continuation of restraint over public sector pay and the intention to fund public sector workforces for a pay award of 1% per annum for the four years from 2016-17. Whilst Local Government pay is subject to joint national agreement, this announcement influenced the Employers Final Offer of 1% which has been agreed for the next two years. The Council's financial projections therefore assume a pay award of 1% in 2016-17 and 2017-18 and 2% annually from 2018-19 onwards. Each 1% increase in pay results in a financial cost to the Council of around £120k.

8.4 The Government announced in the March 2013 Budget that the single tier State Pension would begin in 2016-17. Currently 76.5% of employees are "contracted out" and this means that the Council will pay a contribution rate of 13.8% from 2016-17, rather than the 10.4% current paid. Based on the current establishment, this will increase the Council's expenditure from 2016/17 by an estimated £300k per year (£200k General Fund, £100k HRA).

Interest Rates

8.5 Like many local authorities, Gravesham Borough Council invests its surplus cash to generate income. Interest rates have remained historically low for a number of years and current forecasts from the Council's treasury advisors indicate that rates are only likely to increase to 0.25% by the end of 2017. Whilst interest returns have been low, proactive management of the Council's investment balances have repeatedly achieved a better return than the 3 month LIBID benchmark.

9. Financial Planning Assumptions

9.1 The assumptions which underpin the Medium Term Financial Plan and HRA Business Plan are kept under review to ensure that they represent best estimates of likely economic activity and market conditions based on the latest available information. The following sources of information are utilised to evidence and support assumptions made. This list is not exhaustive, and further credible information which becomes available would be considered as part of this strategy;

- Kent-wide comparison via Kent Finance Officers and Kent Chief Accountants Groups, as well as the shared service arrangements in place with other authorities.
- External Advisors (LG Futures, Capita) who provide briefings on current government actions, likely levels of central government support and other government policy initiatives, as well as economic updates and treasury management issues.
- Local Government Support Organisations (SOLACE, LGA, DCN)
- Media (News and other publications) - information streams such as the BBC and other respected news broadcasting mediums (Financial Times, etc.) are utilised wherever possible to inform decision making.
- Accountancy Bodies (CIPFA)
- Government Consultations & other releases – through the Internet, social media services such as Twitter, and press releases from Central Government, officers remain informed of Central Government announcements and policy directions.

9.2 The assumptions currently in use are shown below.

Area	Assumption applied
Salaries	1% growth annually in 2016-17 and 2017-18, 2% growth annually from 2018-19.
Vacancy Savings	£350,000 (General Fund) and £100,000 (HRA) annual targets to be achieved through management of vacancies and staffing costs
Council Tax Income	2.7% growth in 2016-17, then £5 annually to 2019-20, 2% thereafter.
Council Tax Base	Annual growth in base of 1.8% in 2016-17, 0.6% annually from 2017-18.
Retail Price Index	Service Budgets are cash-limited. Provision of £200k made annually in the MTFP to meet the effects of RPI increases. RPI and CPI effect reflected in HRA Business Plan based on OBR projections.
Business Rates Income	RPI growth annually after 2016-17.
NHB	Proposed changes to the scheme are implemented in 2017-18. Annual growth in properties at 0.6%.
Revenue Support Grant	Based on figures released in the Final Local Government Settlement.

10. Financial Planning Risks

10.1 As set out in the Executive Summary to this document, the Council expects volatility and risk in the environment in which it operates.

10.2 The Council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The risk management process requires judgements to be made on the likelihood and impact of a potential risk and enables the Council to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact on the Council.The following are considered to be the key strategic risks affecting the financial viability of the Council at the time of developing this MTFS.

Risk	**Likelihood**	**Impact**	**Mitigating Actions**
Future funding resources lower than anticipated.			
Business Rates Volatility and uncertainty on future system design			
Council Tax and Business Rates collection rates lower than anticipated.			
Income levels from fees and charges lower than anticipated.			
Investment income returns target not achieved.			
Pay awards and inflationary increases higher than anticipated			
Service spending plans underestimated			
Bridging the Gap activity not delivered/not delivered as needed			
Changing government policy			

Ongoing revenue implications of capital project not			
Ineffective budget monitoring arrangements			

11. Capital Spending

General Fund

Background

11.1 The General Fund capital programme and use of the authority's assets are formulated to support the delivery of the council's priorities, as set out in the Corporate Business Plan. It is influenced by needs identified by service delivery plans as well as opportunities arising from government initiatives and our partners.

11.2 In recent years, the Capital Programme has largely been constituted of the schemes approved in previous years, with few new projects coming on line, due to lack of funding availability. In the main, capital spending is financed in one of three ways:

- Capital Receipts generated by the disposal of surplus assets;
- External funding, for example from government grants or other sources;
- Prudential Borrowing.

11.3 The General Fund Capital Programme will see the Council investing some £5.6m in 2016-17 and 2017-18, including significant programmes to enhance the Borough Market offering within Gravesham Town Centre and redevelop the former Fleet Leisure site.

Generation and option appraisal of capital project proposals

11.4 The council recognises that there needs to be a corporate approach to resource prioritisation and has adopted the following criteria when considering capital project proposals:

- the extent to which the proposal contributes to meeting the key aims and objectives of the Corporate Business Plan;
- their cost-effectiveness in meeting those objectives; and their compliance with the council's Asset Management Plan.

11.5 An evaluation of each potential capital project will be undertaken to establish the whole-life costs of the scheme. At the same time any current years' and future years' revenue costs are also calculated. These revenue costs are reflected in service plans and will form part of the budget process.

11.6 Schemes will be initially endorsed by the relevant Director before being considered by the Council's Management Team and put before Members for approval. The capital programme is monitored on a quarterly basis as part of the Council's budget monitoring arrangements, with reports to Members provided on variations and the progress of significant schemes.

Flexible Use of Capital Receipts Strategy

11.7 Statutory Guidance issued by the Secretary of State permits the use of capital receipts to fund expenditure on projects where incurring up-front costs will generate on-going revenue savings. The guidance applies with effect from 1 April 2016 to 31 March 2019 and the Council is only able to use capital receipts from the disposal of property, plant and equipment assets received in the years in which the flexibility is offered.

11.8 Accordingly, the Council will look to utilise capital receipts generated in the period as an enabler to securing on-going revenue savings where eligible projects are identified. These may include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to on-going efficiency savings or service transformation;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).

11.9 Use of this flexibility will be considered as part of the annual budget setting process, with a Flexible Use of Capital Receipts Strategy forming part of the budget papers presented to Members, as per the requirements of the guidance. Any in-year updates to the Strategy will be reported to Members through the existing budget monitoring arrangements of the Council.

Use of Council-owned assets

11.10 Over the last ten years the Council has rationalised its property portfolio and worked with partners to ensure the effective use of its assets in the delivery of services to the public. The Council will continue to review its asset holdings with a view to identifying surplus assets that could be released and generate capital receipts for the Council which in turn can be used to invest in capital schemes for the benefit of the borough.

Housing Revenue Account

Background

11.11 The self-financing Housing Revenue Account was implemented on the premise that not only the day-to-day management but also any investment needs would be funded from the HRA through revenue supplemented by the authority's capital resources

11.12 The main sources of funding for the Housing Revenue Account Capital Programme are:

- Direct revenue funding (DRF)/revenue contributions to capital outlay (RCCO) from the HRA;
- Major repairs reserve (MRR);
- Capital receipts;
- Prudential Borrowing;
- Grants and contributions from external sources.

11.13 The Housing Revenue Account Capital Programme will result in the investment of some £24m in 2016-17 and 2017-18, including schemes to deliver new build housing in the borough and maintain council-owned dwellings to a decent standard.

New build and acquisition of houses

11.14 The Council has signed an agreement with the Department for Communities and Local Government to us receipts retained from Right to Buy to replace the units lost on a one-for-one basis. Under this agreement:

- Right to Buy receipts must not make up more than 30% of total spend on replacement housing stock, and
- Any unused receipts (after a period of three years from initial receipt) would be required to be returned to the Secretary of State with interest at 4% above base rate.

11.15 The Council will therefore be expected to fund the remaining 70% of any new build from its own reserves or through borrowing.