

## **Medium Term Financial Strategy 2022/23 to 2026/27 (Revised January 2023)**

### **1. Introduction**

- 1.1. Last year the council adopted a five-year Medium Term Financial Strategy (MTFS) spanning 2022-23 to 2026-27 which considered initiatives to reduce the emerging budget gap that the council is facing on its General Fund Services. On 20 December 2022 the Provisional Local Government Finance Settlement for 2023-24 was announced by the Department for Levelling Up, Housing and Communities (DLUHC). As like last year the provisional settlement is for one year only, with the future funding of local government remaining uncertain, albeit the principles for the 2024-25 local government finance settlement have been outlined in the Local Government Finance Policy Statement.
- 1.2. During 2022-23 the council has faced significant unprecedented budgetary pressures due to the current volatile economic climate. Updates setting out these pressures were presented to Cabinet in May and October 2022. The financial projections made in October 2022 indicated that by 2026-27 the budget gap of c.£3 presented at Full Council in February 2022 would increase to c.£4.6m.
- 1.3. Due to the exceptional budgetary pressures the council is facing, increased intensive scrutiny of the proposed financial budgets for 2023-24 and projections for future years has been undertaken during the budget setting process. This is intended to ensure that the Medium Term Financial Plan (MTFP) presented at budget setting for 2023-24 was truly reflective of the financial pressures being faced and the consequential financial position the authority finds itself in.
- 1.4. Analysis has indicated that, if the council had taken no action, the identified budget gap presented to Full Council in February 2023 would have been c£6m. The council has a proven track record of acting responsibly and proactively to the financial challenges it faces and, having commenced delivery of its 'Balancing the Budget' activity agreed by Full Council in February 2022, the council has been able to reflect base budget reductions in its MTFP of £1.4m, leading to a residual budget gap of £4.3m, though noting that this pressure does now start to appear in the 2024-25 financial year.
- 1.5. 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.
- 1.6. 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).
- 1.7. The Medium Term Financial Plan (MTFP) and the HRA Business Plan provide numerical representations of the council's future financial projections 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.

## 2. Strategic Direction

### Corporate Plan

- 2.1. 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.
- 2.2. In October 2019, the council adopted a new Corporate Plan covering the 2019-2023 period with the ambition of *Delivering a Gravesham to be proud of*. In seeking to deliver against that ambition the council has established a suite of corporate objectives:

**People:** a proud community; where residents can call a safe, clean borough their home.

**Place:** a dynamic borough; defined by a vibrant and productive local economy taking advantage of growth in the area, supported by its strong and active community.

**Progress:** an entrepreneurial authority; commercial in outlook and committed to continuous service improvement, underpinned by a skilled workforce and strong governance environment.

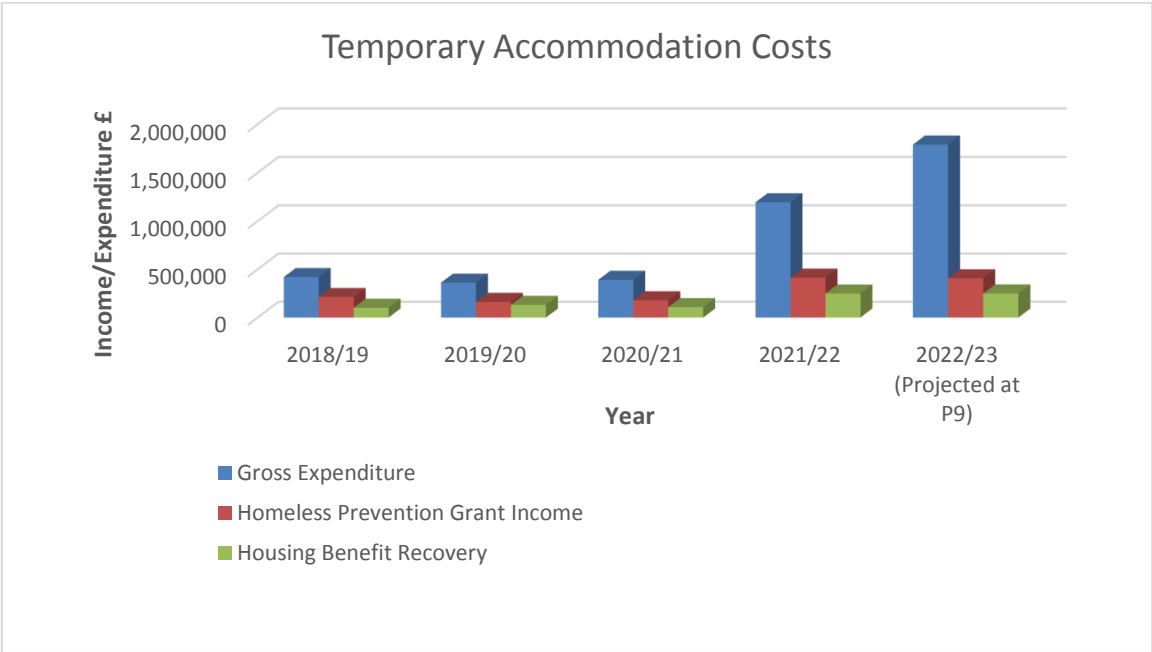
## 3. Supporting Key Documents

- 3.1. The Medium-Term Financial Strategy is supported by the following strategic financial documents
  - Treasury Management Strategy
  - Capital Strategy
  - Charging Strategy
  - HRA Capital Programme
  - General Fund Capital Programme
  - Climate Change Strategy

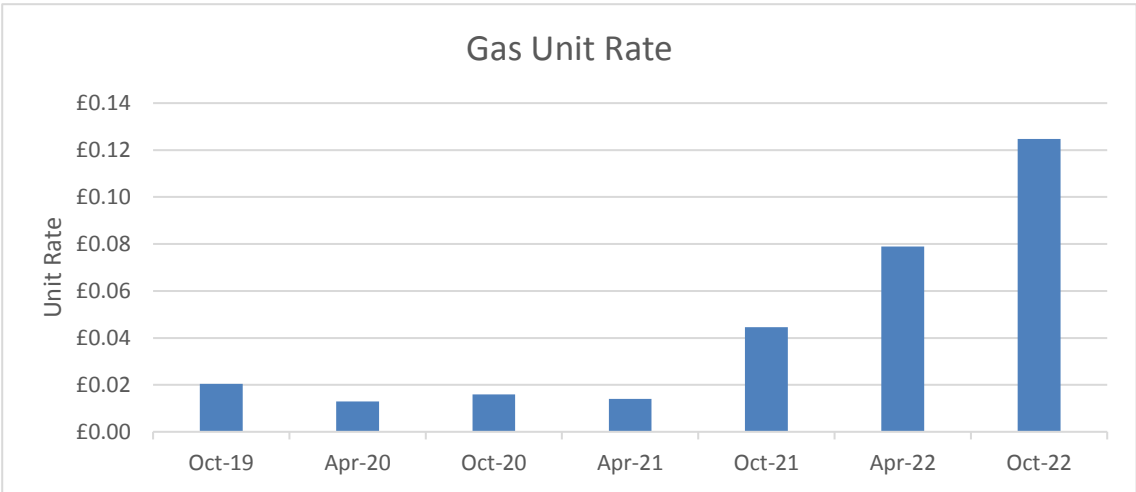
## 4. Financial Planning

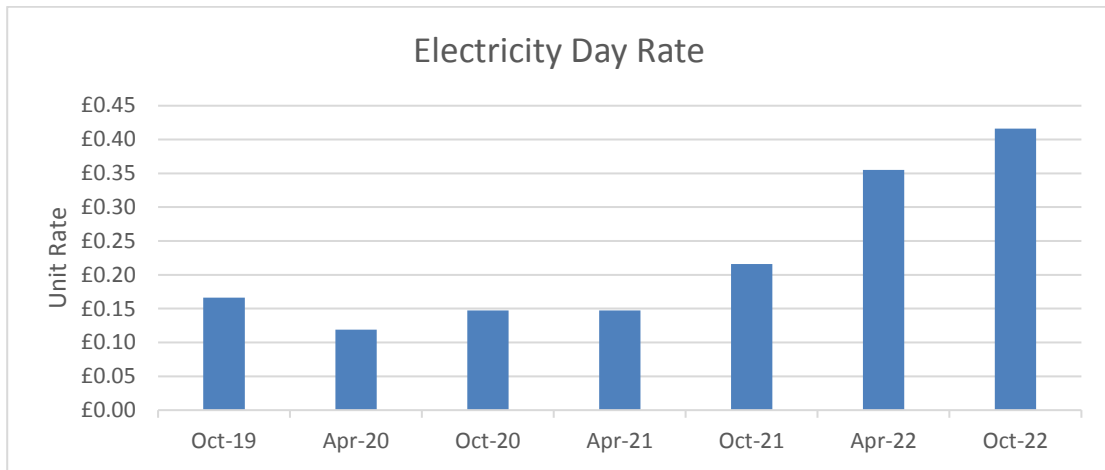
- 4.1. In terms of financial planning, the council will need to retain its sound financial management arrangements while becoming more progressive and entrepreneurial in its activity in line with the agreed Corporate Plan.
- 4.2. Local authorities are legally obliged to set a balanced budget each year and to ensure they have enough reserves to cover any unexpected events. Therefore, to legally balance the budget the council must make spending plans affordable by matching it to the estimated funding available over that time. Over the last decade Gravesham Borough Council, along with the rest of local government, has experienced significant and sustained cuts to its funding whilst demand on services has risen.
- 4.3. In 2022 the council adopted a five-year Medium Term Financial Strategy in response to the rising challenges to its financial position and embarked on a multi-faceted programme of activity intended to optimise income generation, innovate service delivery of services and ensure that resources were appropriately focused on the needs of the borough. This strategy has been updated in 2023 due to the fast-moving nature of the financial environment within which the council operates.

- 4.4. During the last year, the council has faced new, emerging and significant financial challenges as a result of the increases in fuel prices, energy costs, raw materials, interest costs and corresponding increases in demand for homelessness services which have impacted unfavourably on the council's budget.
- 4.5. The below graph shows that government funding for homelessness expenditure has not kept pace with costs of temporary accommodation in the last five years.

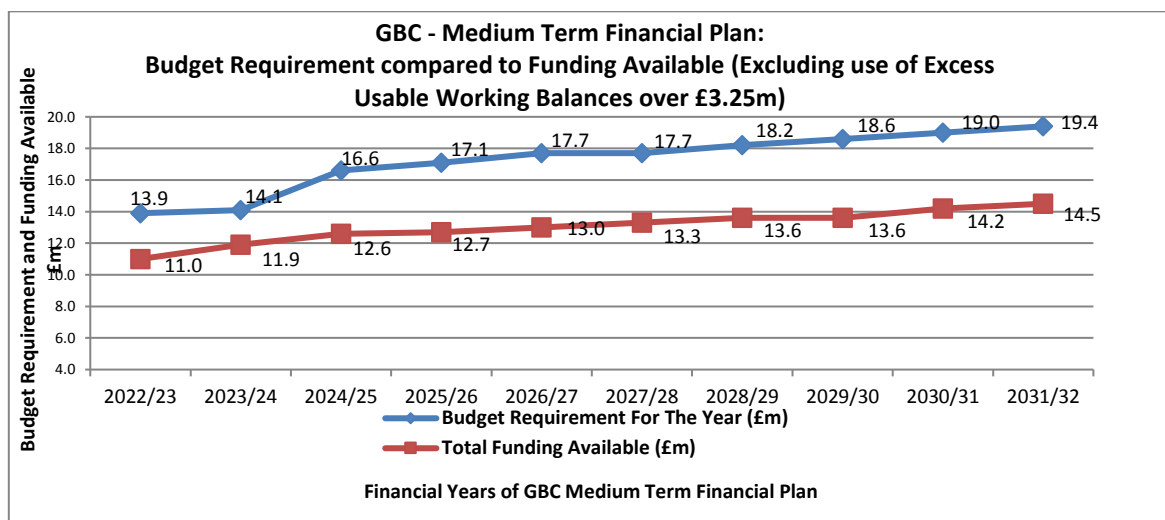


- 4.6. Increases in gas and electricity standing charges have been substantial over the last year with gas increasing by 10p per unit and electricity increasing by 25p per unit. In addition, unit costs for gas and electricity have increased significantly over recent times.





4.7. Over the term of the current MTFP, the council is now in a position where projected expenditure exceeds expected income.



4.8. Due to prudent financial stewardship over recent years the council has remained in a strong financial position in comparison to some other local authorities. Whilst the council has emerging financial pressures in future years, it has ensured a balanced budget for the next year which is based on sound assumptions for how planned expenditure will be met, but it will need to effectively plan activity intended to restore financial sustainability in the medium term.

### Local Government Finance

4.9. Prior to 2010 local government funding was dominated by a 'needs' formula approach to distribute Revenue Support Grant (RSG). Over the last decade this support grant has gradually diminished and in some circumstances has become 'negative' meaning that local authorities had to budget to potentially 'pay' central government.

4.10. Central Government has put initiatives in place to help support funding for Local Authorities such as Business Rates Retention at the level of 50%, which was introduced in 2013/14 and New Homes Bonus, which was introduced in 2011/12 to provide an incentive for housing growth however it remains uncertain as to whether these funding streams will continue into the future.

4.11. For Gravesham, in 2010-11 some 60% of council funding was received through Central Government Grant. In 2022-23, due to changes in central government policy on funding

of local authorities, this position had shifted to around 96% of funding being generated through council tax and retained business rates receipts.

### Medium Term Planning Assumptions

4.12. 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

4.13. The assumptions currently in use are shown below.

Area	Assumption applied
Salaries	5% growth for 2023/24 then 2% annually from 2024/25
Vacancy Savings	£450,000 (General Fund) and £150,000 (HRA) expected to be achieved annually through management of vacancies and staffing costs
Council Tax Income	3% growth for 2023/24 & 2024/25 and then 2% thereafter
Council Tax Base	Growth of 1.25% for 2024/23 and 0.60% thereafter
Business Rates Income	Assumed increase of 2%
NHB	Funding for 2023/24 of £550,560 then £350,000 thereafter pending further information on Government reform of the Scheme.
Revenue Support Grant (RSG)	Future years reflect the expectation of a negative RSG position pending further information on wider local government funding reform, however there is indication that other government grants

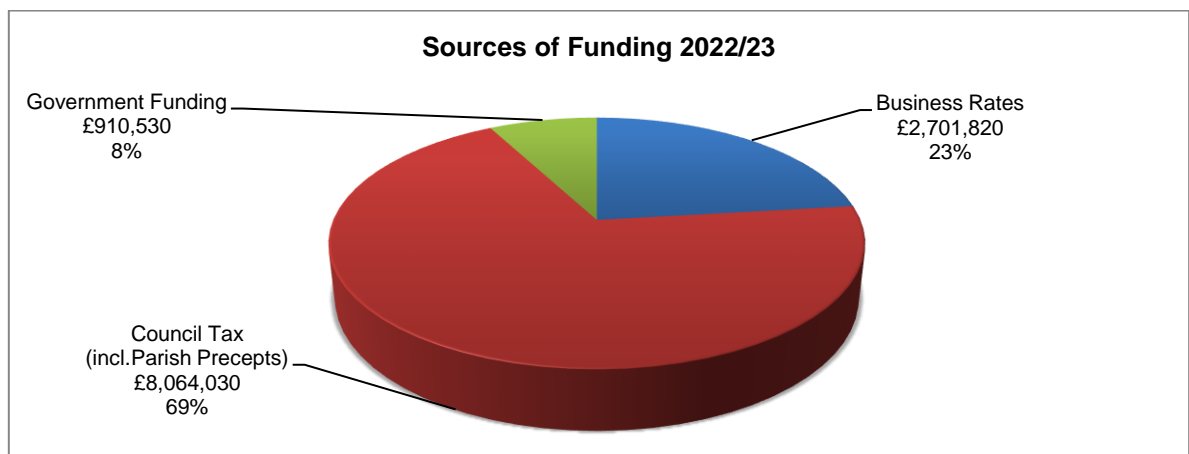
	receivable (as outlined in the provisional settlement) are now in the overall envelope of RSG.
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### Central Government Policy on Local Government Funding

- 4.14. Central Government continues to consider how Local Government should be funded over the longer term which creates difficulties and challenges in planning the financing of council services over the longer term.
- 4.15. There is currently no published timetable for implementing the delayed Fair Funding Review and Business Rates Reset (both originally planned for 2019/20).

### Gravesham’s Sources of Funding 2022/23

- 4.16. The General Fund net revenue budget for last year (2022/23) was primarily funded from locally generated resources (Council Tax and Business Rates) and a level of central government funding. The following chart shows the relative sources of funding for 2022/23.



## 5. Financial Strategy

- 5.1. The key objectives of the Medium Term Financial Strategy are as follows:
  - To ensure that effective financial planning and management contributes to the Council achieving the objectives set out in the Corporate Plan
  - To maximise income where possible to support the Council’s priorities
  - To ensure sound and robust financial management arrangements which inform decision-making regarding effective resource allocation and asset use
  - To continue to improve value for money, managing our resources effectively and efficiently
  - To ensure that decisions relating to projects or to new or amended function delivery methods consider both the initial costs and the ongoing financial liabilities those decisions will create
  - To ensure we remain resilient in the longer term

- 5.2. The core principles that will underpin the delivery of these objectives are:
- To ensure that the finite resources available are aligned to the council’s Corporate Plan objectives
  - To preserve a minimum level of £5.25m General Fund working balances and a minimum level of £3m Housing Revenue Account working balances
  - To regularly review its earmarked reserves to ensure these remain fit for purpose and appropriately funded
  - To ensure that decisions relating to Council Tax setting are made with due regard to the guidelines issued by the Secretary of State
  - To maintain robust budget setting, budget management monitoring and control arrangements
  - To proactively take action as a council to address budget pressures through a well-considered programme of innovation and savings

**6. Balancing the budget – General Fund**

- 6.1. The most recent MTFP indicates that the council has a residual budget gap of £4.3m, noting that this starts to appear in the 2024-25 financial year. This is in spite of c.£1.4m of initiatives to balance the budget having been delivered and reflected in this latest MTFP.
- 6.2. The table below sets out these savings / increases in income against the MTFS headings Had these initiatives not been delivered the council would now be facing a budget gap in the region of c.£6m.

	<b>Total</b>
Budget Rationalisation	508,340
Fees & Charges	110,510
Asset Optimisation	620,540
Trading & Commercial	185,650
<b>Total</b>	<b>1,425,040</b>

- 6.3. As a responsible steward of public funds and services, Gravesham Borough Council must continue to be proactive in its approach and has actively seek to identify initiatives to support ‘balancing’ this budget gap as it now stands of £4.3m. These initiatives will continue to cover the following headings:-
- 6.4. **Budget Rationalisation**  
 The Council has a strong track record in managing its financial resources and recognises that strong financial control must continue 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 review it reserves and challenge spend and budgetary provisions and ensure that budgetary provisions remain fit for purpose, particularly given the changing operations of and demands on the organisation.

- 6.5. **Fees & Charges**  
 Deriving income from fees and charges has become increasingly challenging over the last few years. The council recognises, however, that this is a key source of revenue income and will seek to ensure that fees and charges continue to meet the principle

objectives of its Charging Strategy and will endeavour to identify new income streams to support the delivery of council services.

The Council will continue to undertake at least an annual review of its fees and charges.

#### 6.6. **Asset Optimisation**

The council owns and operates a number of assets and will work to ensure it maintains its optimum asset portfolio and is obtaining the best value from the assets it holds.

#### 6.7. **Trading and Commercialisation**

The council has successfully established Rosherville Limited as a Local Authority Trading Company and, as primary shareholder, continues to work with the company to develop its activity as a means of delivering financial returns to the council which can be directed to underpin council services to local residents.

The council also continues to seek to conclude its property acquisition strategy as a means of supporting economic activity in the borough and to generate further rental income streams.

#### 6.8. **Continuous Improvement Reviews**

As part of its previous programme of activity, the council developed a Service Review process intended to identify opportunities to reduce net service 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 were undertaken for all front-line services and the service options developed from these reviews and ratified by Members delivered net expenditure savings of £1.4m over the period to 2019-20.

COVID-19 has changed the way the council operates and delivers some of its services. As consequence there is a need for the council to consider how it allocates resources in an efficient and effective manner to ensure that it continues to deliver services in the best way for its communities.

#### 6.9. **Summary of Initiatives**

In response to the increasing financial challenges, the Balancing the Budget plan was revised in November 2022, taking into account the position reported to Cabinet at that time.

<b>Initiative</b>	<b>Predicted Value over MTFS Period (£) Set in February 2022</b>	<b>Value of Activity to be delivered over MTFS Period (£) Revised November 2022</b>
<b>Budget Rationalisation</b>	<b>800,000</b>	<b>1,540,280</b>
<b>Fees &amp; Charges</b>	<b>200,000</b>	<b>307,000</b>
<b>Asset Optimisation</b>	<b>800,000</b>	<b>1,035,000</b>
<b>Trading and Commercialisation</b>	<b>500,000</b>	<b>698,200</b>
<b>Continuous Improvement Reviews</b>	<b>700,000</b>	<b>1,019,520</b>
<b>Budget Gap</b>	<b>3,000,000</b>	<b>4,600,000</b>



Based on the latest financial projections contained within the MTFP it is clear that further activity will be required by the council to manage its financial position. Proposals for this activity will be planned and presented to Members in the coming months.

## 7. General Fund Capital Programme

- 7.1. The 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 Plan. It is influenced by needs identified by service delivery plans as well as opportunities arising from government initiatives and our partners.
- 7.2. The principles followed by the council in its approach to planning, procuring, prioritising and managing its capital investment and financing decisions over the long-term is set out within the Capital Strategy.
- 7.3. In recent times the financial resources available to the council to meet corporate priorities have been constrained by the current economic and political climate. Central government support for capital investment has reduced significantly over recent years and is increasingly being targeted through funding for delivery of specific government projects or policy delivery. The council recognises that it will need to adjust its approach to capital funding to ensure it is better positioned to bid for government funding when it is made available, whilst also looking to pursue capital projects which are either self-sustaining or generate positive returns (both in terms of meeting corporate objectives and producing revenue savings) as an alternative to using dwindling internal resources.
- 7.4. For the General Fund, the council's capital investment priorities will be:
  - **Corporate Property Assets** – the council has an extensive land and property portfolio. The council has established a maintenance programme to support its key property assets which considers both capital and revenue requirements to ensure that these assets remain operational. Where acquisition or disposal of land or property assets is recommended, this will be actioned in accordance with the Property Strategy.
  - **Sustainability** – the council will seek to invest in capital projects that support the financial sustainability of the council, as well as supporting wider environmental sustainability of the borough over the longer term. As set out in the Climate Change Strategy, the council is targeting council operations to be net zero by 2030.
  - **Regeneration Investment** – the council will seek to invest in capital projects that support longer term economic growth and place shaping. This will include the acquisition of strategic sites for the purpose of delivering such projects.
- 7.5. The council will continue to ensure that all capital investment proposals are assessed and considered through the formal capital project appraisal process to prioritise capital investment plans on the basis of the extent to which proposal contributes to meeting the key aims and objectives of the Corporate Business Plan, the cost-effectiveness of proposals in meeting those objectives and compliance with the council's Asset Management Plan.

## 8. Housing Revenue Account (HRA)

- 8.1. 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.

- 8.2. 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.
- 8.3. The Housing Service has undergone substantial change in the last few years in terms of how it structures and deploys its resources to deliver effective services to council tenants. The council is also undertaking significant activity to increase the supply of social and affordable housing in the borough. The council will need to review the financial plans it has for the HRA to ensure the on-going sustainability of the Housing Revenue Account. This work will follow some of the workstreams identified for the General Fund in Section Six of this Strategy and will include:
- On-going review of staffing resource levels deployment and budgetary provision;
  - Optimising income generation (revenue) within the HRA through applying Affordable Rent levels to New Build properties where possible and reviewing other fees and charges;
  - Reviewing the loan portfolio of the HRA, assessing its ongoing affordability and looking at options for refinancing;
  - Optimising income generation (capital) within the HRA through working with partners to bring forward new affordable housing in the Borough on HRA owned land;
  - Seeking to ensure that capital projects, where possible and appropriate, are self-sustaining or provide an ongoing revenue benefit;
  - Continuing to review operational processes to increase efficiency and deliver options to reduce the net expenditure on Housing Services where possible;
  - Continuing the development and robustness of financial management, monitoring and planning arrangements, including challenging spend and budgetary provisions, including reserves.

## 9. HRA Capital Programme

9.1. The HRA Capital Programme is principally focused on two investment priorities:

- **Maintenance of Council Dwellings** – Investment in the council housing stock and estate improvements and enhancements ensures properties remain lettable, helping to provide a good standard of housing for current and prospective tenants whilst also securing and sustaining rental income, which fundamentally ensures the viability of the HRA.
- **New Build and Acquisitions** – Investment in increasing the social housing stock helps to deliver housing to meet the needs of the borough, as well as offsetting the loss of housing stock and associated rent income loss from sales through RT
- **Sustainability** – the council will seek to invest in capital projects that work towards the council's social housing stock attaining the minimum rating of Energy Performance Certificate (EPC) C for rented properties by 2035.

- 9.2. The council will continue to ensure that all capital investment proposals for the HRA are informed by a programme of stock condition surveys and the formal capital project appraisals process to prioritise capital investment plans.

## **10. Flexible Use of Capital Receipts**

- 10.1. Sections 16(2)(b) and 20 of the Local Government Act 2003 provides for the Secretary of State to issue capitalisation directions setting out where costs may be treated as capital expenditure.
- 10.2. Statutory Guidance for this purpose was issued by the Secretary of State for the period 1 April 2016 to 31 March 2019 permitting the use of capital receipts to fund expenditure on projects where incurring up-front costs will generate on-going revenue savings. Extension of the flexibility for a further three years was announced in the final settlement in February 2021. 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.
- 10.3. Any use of such flexibility for the period of the MTFS will be considered as part of the annual budget setting process, based on the latest capitalisation directions issued by the Secretary of State.

## **11. Risks to the MTFS**

- 11.1. The Provisional Settlement Announcement in December 2022 did not offer any certainty with regard to the Fair Funding Review or the future of New Homes Bonus.
- 11.2. It is uncertain how the longer-term effects of the recent pressures compounded by the volatile economic climate will impact council income streams in future years, particularly in areas such as car parking income, income from the Woodville, cost of borrowing and rental income returns.
- 11.3. Along with all Local Authorities, Gravesham Borough Council has a duty under the Homelessness Reduction Act (HRA) 2018 to prevent and relieve homelessness and facilitate temporary accommodation until alternative accommodation is secure or relief duty ends. Over the last 18 months, there has been a steady increase in the demand for temporary accommodation requests and homelessness provision, exacerbated by circumstances arising from the COVID-19 pandemic. Increasing demand coupled with the decreasing supply of suitable accommodation locally inevitably means that the service is now reliant on nightly paid options both in and outside of the Gravesham borough which could be financially challenging in future years. As illustrated in the graph at 5.4 the projected spend in this area is expected to be c£1.8m for 2022/23 against grant funding received of c.£400k.
- 11.4. The Government and CIPFA are continuing to implement ways to limit council's ability to make commercial property investments. This could affectively limit the scope and therefore the yield achievable on such activity and may even stop council's ability to borrow for investments made purely for yield.
- 11.5. The council will be affected by future fluctuations in inflation, both in terms of pay settlements and inflation on good and services the council procures. Whilst provision has

been made for both of these inflationary items, there is a risk that these provisions are not sufficient in future years.

- 11.6. Risks to the MTFs will be continually monitored and will feed into the annual review of the Corporate Risk Register and review of Financial Services Risk Register. Commentary on existing and emerging risks will also continue to be provided through budget monitoring and budget setting processes.