

Section Three - Medium Term Financial Strategy

1. Introduction

- 1.1. The Medium Term Financial 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 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).
- 1.3. 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 MTF. 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. Medium Term Financial Strategy 2022/23 to 2026/27

- 2.1. In February 2023 the council amended its five-year Medium Term Financial Strategy (MTFS) spanning 2022-23 to 2026-27 in response to the increasing emerging budget gap that the council was facing on its General Fund Services. At that time, the identified budget gap of the council was estimated to be £4.3m, despite c£1.4m of initiatives to balance the budget having been delivered and reflected as part of the budget setting process for 2023-24. Members were alerted to the potential challenges in balancing the budget in the 2024-25 financial year if no further action was taken to actively manage the situation.
- 2.2. The MTFS sets out five workstreams which the council will actively progress in responding to the financial challenges it faces:

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 its 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.

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 principal 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.

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.

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.

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.

3. Medium Term Financial Strategy – Balancing the Budget Activity

- 3.1. Over the last year the council has progressed the five workstreams set out in its Medium Term Financial Strategy as a sound and realistic plan for managing the Council's finances moving forward.

Initiative	Value of Activity to be delivered over MTFs Period (£)
Budget Rationalisation	1,540,280
Fees & Charges	307,000
Asset Optimisation	1,035,000
Trading and Commercialisation	698,200
Continuous Improvement Reviews	1,019,520
TOTAL VALUE OF ACTIVITY	4.600,000

3.2. In preparing the Original Budget for 2024-25, activity to balance the council's budget has been reflected and an update is provided in the following paragraphs:

Budget Rationalisation

3.3. The Council has undertaken targeted reviews of provisions made within its budget, service delivery efficiencies and assumptions around council tax and business rates receipts and recognition of the future potential benefits from the Kent Business Rate Pool, alongside a specific exercise with budget holders to identify budget reductions within individual services.

3.4. This activity is budgeted to deliver base budget reductions of £1.14m in 2024-25.

Fees and Charges

3.5. 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 to which the fee applies.

3.6. The annual review of fees and charges is budgeted to deliver additional income of £410k in 2024-25. This includes planned increases to car parking fees.

Asset Optimisation

3.7. The council has commenced a critical review of its asset base, identifying changes to the way in which the Charter Market is operated going forward and also implementing rent reviews on assets where existing leases contain provision to do so.

3.8. This activity is budgeted to deliver base budget reductions of £257k in 2024-25.

Trading & Commercialisation

3.9. The proposed budget already reflects expected returns from Rosherville Limited and its subsidiaries, as the councils wholly owned Local Authority Trading Company (LATCo). As primary shareholder, the council will continue 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.

3.10. The council also continues to seek viable property and land acquisitions as a means of supporting economic activity in the borough and the objectives within the adopted Corporate Plan, which may also generate further rental income streams for the council.

Continuous Improvement Reviews

3.11. The council has commenced a programme of Continuous Improvement Reviews, intended to deliver a programme to examine council service delivery. Building on the Service Review Programme developed in 2016, the reviews will formulate a number of options for both officers and Members to consider to generate income, reduce expenditure and ensure that services are working as efficiently as they can. The first report from the review programme was considered by Cabinet in November 2023. As actions are implemented, these will be reported through future reports to Cabinet and budget monitoring.

Conclusion – Delivery of Balancing the Budget activity

3.12. The council has made strong progress in delivering the planned work streams to address the ongoing pressures on its financial situation. During the MTFP period, measures totalling £3.31m have been reflected in the MTFP, with further agreed activity expected to deliver £2.95m.

Progress in delivery of Balancing The Budget Activity			
Workstream	Expected Value of Activity (£)	Activity Implemented and reflected in MTFP (£)	Activity Agreed, not yet reflected in MTFP (£)
Budget Rationalisation	1,540,280	1,635,140	805,000
Fees and Charges	307,000	520,130	64,730
Asset Optimisation	1,035,000	877,440	595,000
Trading & Commercial	698,200	274,390	466,200
Corporate Improvement Team	1,019,520	-	1,019,520
Total Value of Activity	4,600,000	3,307,100	2,950,450

- 3.13. As reported through in-year budget monitoring reports and the Financial Update and Balancing the Budget paper to Cabinet in November 2023, the council has continued to experience pressures on its budgetary position and financial sustainability, principally from demands for homelessness support, the cumulative effect of above-budget pay awards and challenges in deriving income in the current economic climate.
- 3.14. Based on the current MTFP projections, the council will be required to find a further £784k of base budget reductions beyond those agreed but not yet reflected in the MTFP in the table above, to manage its ongoing financial position and maintain financial sustainability beyond the 2024-25 financial year. A number of options to deliver additional reductions to the base budget have already been identified and will be progressed, with updates provided to Members through 2024.
- 3.15. In addition to these ongoing pressures, it is important to also recognise that there still remains significant volatility in the way in which local government is funded, and a number of events in the next year that could impact on government policy direction:
- Spring Budget 2024 - The Chancellor Jeremy Hunt has commissioned the Office for Budget Responsibility to prepare an economic and fiscal forecast to be presented to Parliament alongside his Spring Budget on 6 March 2024.
 - General Election 2024 - Prime Minister Rishi Sunak has said he expects to call a general election "in the second half" of 2024.
 - Spending Review 2024 – during 2024 Government will need to consider its spending plans and the budgets allocated to government departments after 2024-25, which will directly influence the level of funding directed to local government. Indications from the Autumn Statement 2023 suggest that there will be no change in the overall planned increase in Resource Departmental Expenditure (RDEL) of 1% in real terms period (i.e. 2025/26 to 2028/29). This would indicate likely real-terms cuts for unprotected services, including most of local government. The Chancellor also announced the intention to apply more pressure on the public sector through the setting of 0.5% annual productivity improvement targets.
 - Extended Producer Responsibility – implemented as an environmental policy by Government, the policy will require producers to pay the full costs of dealing with the waste produced from product packaging, with funding from payments subsequently directed to local authorities. due to be implemented from April 2024, the scheme has now been deferred for a year.

- Fair Funding Review – In February 2016 the Government announced the intention to conduct a Fair Funding Review, proposed to refresh how funding is allocated and redistributed between local authorities based on updated methodology to measure the relative needs of local authorities and the resources required to meet these needs. On 10 January 2023 the Department for Levelling Up, Housing and Communities (DLUHC) outlined proposals to increase the “effectiveness and efficiency” of the current council funding system by reducing administrative burdens. DLUHC have set out three main phases of these proposals: the immediate simplification of existing funds and communication; the establishment of a new funding simplification doctrine; and reforms to be implemented at the next Spending Review.

4. Impact on Working Balances

4.1. At the start of the 2023/24 financial year, total Working Balances stood at just under £8m.

Title	Purpose	Projected Value at 31/03/23 (£)
Minimum Working Balance	To help cushion the impact of uneven cash flows and avoid the need for temporary borrowing.	2,000,000
General Fund Reserve	To provide a contingency sum to cushion the impact of unexpected events or emergencies.	3,250,000
Usable Working Balances	Funds that are available to support the council's revenue budget.	2,568,520
		7,818,520

- 4.2. Budget monitoring for Quarter Three 2023-24 (period to 31 December 2023) has indicated that working balances to the value of £2.14m will be required to meet the council's net spend requirements for the year, resulting in Usable Working Balances being significantly depleted.
- 4.3. Whilst the council is able to produce a balanced budget for 2024-25, this is reliant on drawing £2.07m from its working balances. This would see the council fall below its recommended minimum level of reserves of £5.25m set within the Medium Term Financial Strategy. Based on current forecasts and were there to be no further intervention during 2024-25 to improve this position, the council would not be able to set a balanced budget for 2025-26.

Title	Purpose	Value at 31/03/25 (£)
Minimum Working Balance	To help cushion the impact of uneven cash flows and avoid the need for temporary borrowing.	2,000,000
General Fund Reserve	To provide a contingency sum to cushion the impact of unexpected events or emergencies.	2,106,430
Usable Working Balances	Funds that are available to support the council's revenue budget.	0
		4,106,430

5. Medium Term Planning Assumptions

5.1. The assumptions which underpin the Medium-Term Financial 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.

5.2. In preparing the draft budget for 2024-25 the assumptions currently in use have been reviewed and are as shown below.

Area	Assumption applied
Salaries	5% growth for 2024-25, 3% for 2025-26 and then 2% annually thereafter
Vacancy Savings	£500,000 expected to be achieved annually through management of vacancies and staffing costs
Council Tax Income	3% growth for 2024-25 and then 2% thereafter
Council Tax Base	Growth of 2.06% for 2024-25 and 0.60% thereafter
Business Rates Income	Assumed increase of 2% annually
NHB	Funding for 2024-25 of £475,800 then £400,000 annually 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.

6. Medium Term Financial Strategy objectives

6.1. The key objectives of the Medium Term Financial Strategy continue to be:

- 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

6.2. The core principles that will underpin the delivery of these objectives continue to be:

- 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