INTRODUCTION

North Kesteven's Medium Term Financial Strategy is the means by which the Council demonstrates how it will use the financial resources available to deliver its priorities which have been set following consultation with residents, businesses and stakeholders in the district. For this reason it is important to understand the policy context within which this Medium Term Financial Strategy is framed.

This Medium Term Financial Strategy sets out the Council's clear commitment to provide quality services which represent value for money for the district's 100 flourishing communities. It builds on the achievements of the past, and sets out a clear direction for the future in conjunction with the Council's Corporate Plan.

The Country is emerging from the worst recession since the depression in the 1920's and most households during the past 6 years have experienced a fall in living standards. The National Debt continues to grow despite the significant reductions in public spending over the last 4years. The current coalition Government set a target of eliminating the spending deficit by the general election in 2015. It is clear that this will not be achieved with the current annual deficit projected at £60billion. It is now estimated that the deficit will not be eliminated until 2018 at the earliest, and therefore we must expect further public sector spending reductions over the next 3 years.

On a more positive note, interest rates have remained at a historically low level, but may rise gradually over the next 3 years. Inflation has gradually reduced and utility prices appear to have stabilised for the time being. The economic prospects for the district over the next 3 years are very encouraging and therefore this should have a positive impact on income levels, particularly in relation to planning fees, business rates and council tax.

One of the major changes implemented during 2013/14 by the Government was the part localisation of Business Rates. This sits alongside a reduced level of central support through the Revenue Support Grant (RSG) with the local ability to increase Council Tax remaining very limited.

The Council has embraced the modernisation agenda and is committed to achieving continuous improvement and innovation in service delivery. It is also committed to working with partners to improve the quality of life for residents and businesses in North Kesteven and this is reflected in the Council's vision of "100 flourishing communities".

The Medium Term Financial Strategy provides the funding framework within which the Council will achieve its aspirations. A balance has to be struck, as a consequence of the constraints on financial resources, between the pace of improvement and the affordability of proposals that deliver the desired improvements to services and fulfil the Council's community leadership responsibilities. This strategy will cover both the expected variations to revenue programmes and the approach adopted towards planning the capital programme for the next three years.

The Medium Term Financial Strategy will demonstrate that the Council has sound financial management arrangements in place which are focused on the delivery of its vision and corporate priorities.

Inevitably the Council's plans will need to change as the demands on its services vary in the future. Financial planning is not an exact science and the Council will keep the Medium Term Financial Strategy under review and amend it in the light of changing circumstances. All areas of the budgets will be kept under review and the Council will continue to reduce costs wherever possible.

The future of local government finance now contains many uncertainties. However, the Council has a greater opportunity to retain Business Rates income locally with a lessor reliance on Central Government support. The Council will keep its Medium Term Financial Strategy under review and amend it as required to reflect the rapidly changing environment in which we work.

Alan Thomas, CPFA, IRRV
Deputy Chief Executive

OBJECTIVES OF THE FINANCIAL STRATEGY

The Medium Term Financial Strategy (MTFS) has been designed to allow changing resource and service levels to be planned in a structured and measured way by forecasting resource availability, and balancing this against improvement and investment needs and priorities. It is also intended that it will act as an important tool for change, monitoring and review.

The objectives of the strategy are to:

- Prioritise resources to align spending plans with the Council's vision, corporate priorities and ambitions;
- Maintain a balance budget position;
- Provide a robust framework to assist the decision making process;
- Maintain Council Tax as low as possible;
- Maximise the use of resources available to the Council, both internal and external;
- Deliver value for money to local taxpayers;
- Continually review budgets to ensure resources are targeted on corporate priorities;
- Highlight financial risks and mitigating controls.

The Council has a number of fundamental principles that underpin the strategy. These are:

- ♦ A responsibility to ensure that the residents of North Kesteven receive the best quality community leadership and service provision that can be delivered within the resources available;
- ♦ Ensuring that the Council takes a managed approach towards securing a sustainable future;
- ♦ Assessment of projects take into account both capital investment and ongoing revenue consequences;
- ♦ A commitment to reduce costs in the organisation and to maximising the resources available to secure better outcomes for people by striving to achieve better value for money and greater efficiency;
- ♦ Investment in those initiatives where the Council can have the greatest impact, focusing on services that are important to residents and businesses in the district, very often by working in local partnerships.

The MTFS supports all other Council strategies, such as the asset management strategy. In particular, it acts as a linchpin linking the Council's more detailed service plans, asset management plans, and capital plans with the longer term to show that the Council's plans are financially achievable.

THE COUNCIL'S STRATEGIC DIRECTION

Links to the Corporate Plan
The Council has reviewed its priorities during 2014 in conjunction with the Local Strategic Partnership (Partnership NK), and the Council's budgets have been aligned accordingly.

The Council's Corporate Priorities are:-

Our Economy	To promote the economic and employment growth of North Kesteven
Our Homes	To promote housing growth that meets the current and emerging needs of North Kesteven
Our Communities	To promote the sustainability, wellbeing, safety and health of North Kesteven's growing communities
Our Council	To be a high performing and value for money Council that is prepared for the future

CURRENT FINANCIAL CONTEXT

The Spending Review 2010 (SR10) set the Government on its austerity course which for Local Government and the Council resulted in significant reductions in its funding from Central Government. It also introduced for the first time Council Tax Freeze grant for those Council's that kept their portion of Council Tax unchanged.

The Localism Act 2011 introduced the requirement for all Councils to hold a referendum on increases in Council Tax above a "cap" which is set annually by Central Government (currently 2%).

The Chancellor's Autumn Statement on the 5 December 2012 and the following Local Government Finance Settlement for 2013/14, introduced Business Rates Retention replacing the previous system of financing Local Government with a new, fundamentally different one based on the part retention of business rates in order to achieve two of the Government's key priorities of economic growth and localism which took effect on the 1 April 2013.

The Chancellor's Autumn Statement also confirmed that the trajectory set out in SR10 would continue with austerity in Government, likely to continue until 2018.

As part of the Chancellor's Budget on 20 March 2013, he reiterated that public spending control is central to the Government's commitment to reducing the deficit and announced a further 1% reduction in department spending limits for 2013/14 and 2014/15. As the local government settlement had been agreed, councils were protected from the cut in 2013/14 but would be subject to the further reduction in 2014/15.

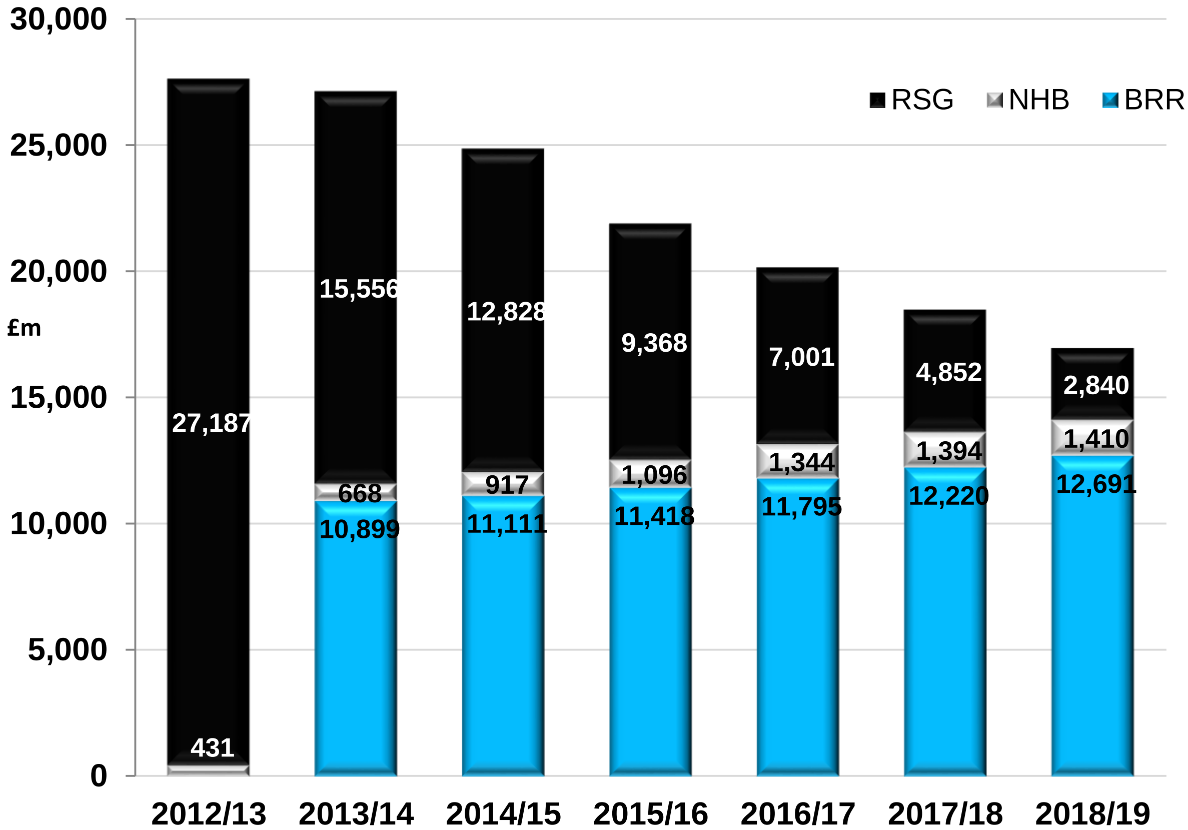
On the 26 June 2013, the Chancellor announced the outcomes from the Spending Review 2013 (SR13). The main financial outcomes being:

- Government needed to make a further £11.5billion savings;
- Local Government (DCLG) to make a further 10% saving;
- Confirmed £2billion a year Single Local Growth fund (top slicing £400million out of New Homes Bonus);
- Funding for a 1% Council Tax Freeze for 2014/15.

The Chancellor's Autumn Statement announced on 5 December 2013 introduced departmental saving requirements for the period to 2015/16. However, Local Government had been "protected" due to the spending cuts previously announced. The Statement also contained details of a proposed 1% Council Tax Freeze Grant for 2014/15 and a £1.1Billion package around business rates including, amongst others, the following:

- A reduction to the RPI inflator from 3.2% to 2%;
- Continuation of the Small Business Rate Relief scheme for a further year;
- £1,000 discount for retail, pubs, cafes with rateable values less than £50,000 for two years.

However, the Governments deficit reduction policy is now expected to have to continue to at least 2018/19. The following graph demonstrates the likely national funding projection for local government to 2018/19.



RSG – Revenue Support Grant. NHB – New Homes Bonus. BRR – Business Rates Retention

BUSINESS RATES RETENTION

The 2013/14 local government finance settlement saw the launch of the Business Rates Retention scheme (BRR) as the main form of local government funding.

Under the BRR element of local government funding, the level of business rates collected by the Council will determine the actual funding received. Under the previous funding system, funding was provided through Formula Grant, which was fixed annually through the local government finance settlement.

Councils that see increases in their business rates taxbase and associated revenues from their initially assessed position are able to retain an element of the increase. However, councils having a decline in their business rates taxbase will see relative reductions in resources.

A start-up funding assessment has been determined for each local Council. This has been determined in the same way as Formula Grant was determined previously. The start-up funding assessment (SUFA) has then been split between Revenue

Support Grant and BRR, expressed as "Baseline Funding Level". The level of Revenue Support Grant is guaranteed throughout the year, whilst the Baseline Funding Level under BRR is not.

To fund the Baseline Funding Level element, local councils each have an expected level of business rates that is to be collected, known as the "NDR Baseline". Due to differences between the Baseline Funding Levels and the NDR Baseline, a further adjustment is required.

For councils with a Baseline Funding Level that is higher than their NDR Baseline, a "Top up" grant is due. Where a council with a Baseline Funding Level that is lower than their NDR Baseline a "Tariff" payable to central government is required to be made.

This system of Top ups and Tariffs allows all councils to begin BRR at the same starting point in terms of resources, as assessed by central government. Tariff and Top up amounts will be uprated by RPI each year to reflect the annual RPI increase in the nationally set business rates multiplier. All Lincolnshire District Councils are Tariff with the County Council being a Top up, with Lincolnshire as a whole requiring an overall Top up.

There has also been introduced a cap on the amount of resources that an authority can receive through the scheme known as the "Levy". This will limit the amount that a council can gain in cash terms for any given level of NDR growth to a 1% increase in Baseline Funding Level for a 1% increase in NDR income experienced. This is further complicated with an upper limit on a levy of 50p in the pound. The Council is subject to the Levy as projected business growth in the district comes through.

There is an option under BRR to "pool" across wider areas and for 2014/15 the Council decided to take part in the Lincolnshire NDR Pool along with Lincolnshire County Council, South Kesteven District Council, East Lindsey District Council, Boston Borough Council and the City of Lincoln Council. The benefit in Lincolnshire for pooling is that as a net ‘top up’ area more resources would be retained and should NDR growth be experienced, where it would be subject to the Levy and lost to central government, this can all be retained within the member district areas. For 2015/16, it is expected that a wider Lincolnshire pool containing most of the Lincolnshire districts along with Lincolnshire County Council will be established.

REVENUE SUPPORT GRANT

At the national level Revenue Support Grant (RSG) is calculated as:

- The local government spending control total less;
- The local share (i.e. 50%) of aggregate business rates.

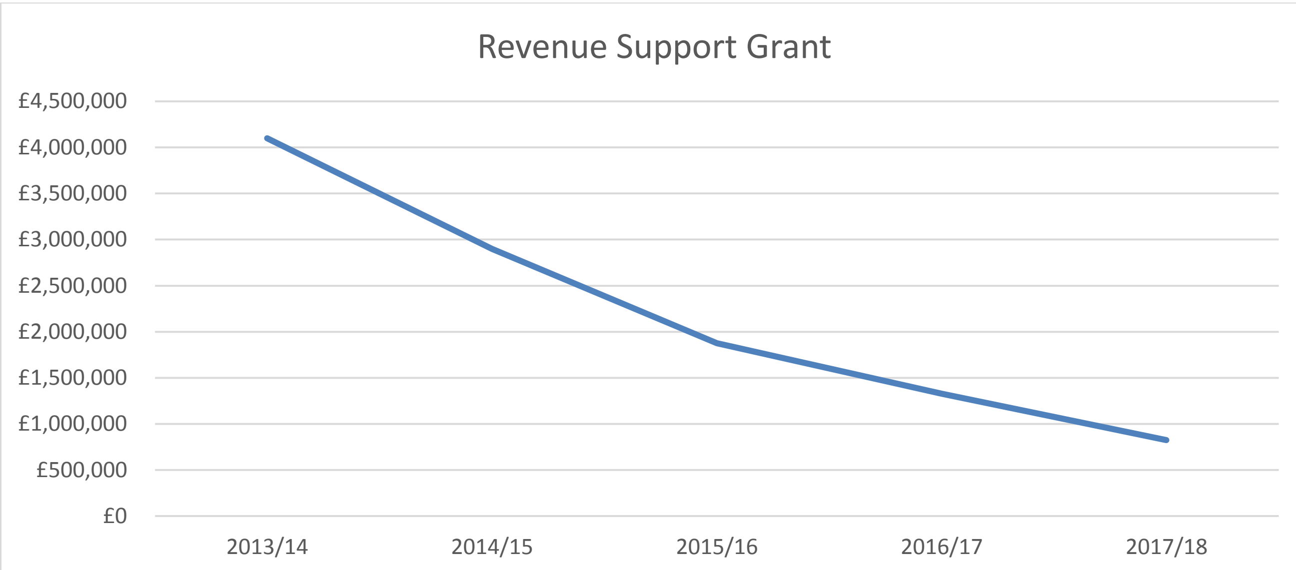
As detailed above, each councils SUFA comprises the two components:

- Its share of RSG, plus;
- Its share of the local share of business rates, also known as its baseline funding level.

A number of previously specific grants issued by Government departments for the delivery of specific services (such as Housing Benefits and the element that has been passported to Town and Parish Councils) have been "rolled in" to RSG from 2013/14 onwards. This has led to the loss of visibility of funding as it is unclear how these rolled in grants are being treated as part of the overall reduction to RSG.
From 2014/15 the reduction in national spending control totals required to be met from local councils will be achieved entirely through a reduction in RSG as evidenced by the SR13 and the associated consultation on the 2014/15 and 2015/16 indicative settlement.

CLG are also scaling different elements of RSG at different rates depending upon whether it was previously a grant rolled in into SUFA or funding which was calculated on the previous Formula Grant system.

The following graph demonstrates the anticipated trend in the Council's total RSG (including all rolled in grants) over the life of the Medium Term Financial Strategy.



NEW HOMES BONUS

The New Homes Bonus was introduced in 2011/12. For each new or empty property brought back into use in the district it pays an amount equivalent to the average Band D Council Tax rate, plus an additional £350 per each social housing unit for a rolling period of six years. This will be a major source of income in the next three years which can be used to finance a number of key Council projects.

WELFARE SUPPORT

The Government has begun introducing a number of changes to the benefits system from 1 April 2013 under Welfare Reform. These potentially will have a significant impact on residents within the district as well as in the way the Council will administer benefit payments and collect rents and Council Tax in the future. These changes raise a number of risks to the Council which are covered later in the strategy.

Localising Council Tax Support (LCTS) – The localisation of Council Tax Benefit as a Council Tax discount rather than previously a grant, has meant that the Council Tax taxbase is significantly different. Therefore, the Council's two main sources of funding (Business Rates and Council Tax) are subject to volatility when previously static for the year and will both be influenced by growth (or not) and economic activity going forward.

The funding for Council Tax support nationally was initially reduced by 10% with pension age claimants being protected. Therefore, the impact on working age claimants is higher. However, this funding has now been rolled into the General Revenue Support Grant, which is itself being reduced each year.

ECONOMIC OUTLOOK

The Bank of England Base Rate has remained at 0.5% since March 2009 and a recent announcement from the new Governor of the Bank of England sees this likely to remain the position at least for 2014. Many commentators expect the bank rate to start rising during 2015, albeit by modest levels to begin with.

The Retail Price Index (RPI) for the year to August 2014 grew by 2.4%, while the Governments measure of inflation the Consumer Price Index grew at 1.5%, below the Bank of England's target rate of 2%. The Bank of England expects that inflation will remain at or below the target 2% over the MTFS period.

In March 2014 the Office of Budget Responsibility (OBR) announced that it had increased its growth forecasts for the UK as a result of stronger than expected growth figures during 2013:

- 2014 – 2.7%
- 2015 - 2.3%

The UK economy has now recovered to the position before the 7.2% contraction experienced since 2008 albeit much later than most other European economies and the US.

The OBR projects that the UK's annual growth to be in excess of 2% through to 2018.

The UK economy has been very much on the increase but recent uncertainties around the global position from both economic and social factors, and closer to home, Scotland's vote on independence, has seen many conflicting reports on its strength particularly in the longer term.

The situation in EU zone is far from stable with a number of countries slipping back into periods of contraction if not necessarily recession which is also adding uncertainty around the strength of the economy in the long term as Europe remains the UK's biggest trading partner.

Therefore, the longer term view is very difficult to forecast and contains many significant risks to the projections released by the OBR.

GENERAL FUND FUNDING POSITION

The significant challenges facing the Council in terms of spending pressures and creation of resources is expected to continue over the next 3 years. Whilst planning income may remain buoyant during this period, net expenditure on the General Fund is expected to increase by 10% from £11.3million to £12.5million.

In terms of resources, the Council Taxbase is projected to grow by 1.25% a year. It has been assumed that there will be no increase in the level of Council Tax in April 2015, but there will be a 2% increase in 2016 and 2017.

Revenue Support Grant

Due to the continued reductions in central Government support it is anticipated that the Revenue Support Grant (RSG) will be effectively eliminated by 2020. Therefore a projected reduction in Revenue Support Grant of almost 70% (or £2million) is anticipated from the current year through to 2018. This means that the Council will have to rely upon income from local taxation sources such as council tax, business rates and other charges to finance local services from 2018 onwards.

An item of concern remains around the previous departmental or specific grants that have been "rolled in" to RSG from 2013/14. Most of these grants can no longer be seen in the makeup of the Council's RSG allocation. Therefore, the Council has lost the transparency of how these grants are being cut during this process. This is a particularly important grant for Localising Council Tax Support, an element of which is expected to be made available to Town and Parish Councils. For 2013/14, grant of £223,000 was received by the Council and made available to Town and Parish Councils of the district to help them counter the financial loss they incurred through the change to their Taxbase from LCTS becoming a discount. It is currently not possible to establish from the indicative figures released how this is being cut as part of the overall reduction in RSG.

The likely RSG levels (including grant in relation to LCTS) for 2015/16 to 2017/18 are:

2015/16 £2,097,000
2016/17 £1,550,000
2017/18 £1,048,000

Business Rates Retention

Business Rates Retention (BRR) represents a new finance regime for Local Government.

A more encouraging picture can be envisaged for business rates income over the next 3 years. The growth in business rates for the first year of the new regime was greater than anticipated and all the signs point to further increases over the next 3 years. The full impact of the Efficiency from Waste Plant and the Straw Burning Plant has yet to materialise, and the business rates from further renewable energy sites could be significant. Therefore an increase in business rates of almost 66% (around £2million) has been projected over the next 3years. This effectively compensates for the loss of income from Revenue Support Grant over the same period.

The establishment of a wider Lincolnshire Business Rates Pool for 2015/16 will see the Council retaining 60% of the Levy that would otherwise be lost to central government. The remaining 40% will go to Lincolnshire County Council.

BRR sees most of the risks around business rates retained by the Council as businesses prosper or falter depending on the economic circumstances they find themselves dealing with. This makes the situation and, therefore, funding from business rates volatile and difficult to predict with any degree of accuracy and represents the single biggest financial risk over the MTFS period.

Council Tax

The Council has a history of property growth within the district and its impact on the Taxbase upon which Council Tax is set. A consequence of growth in the number of domestic properties in the district is the award of New Homes Bonus which the Council has received since 2011/12. Despite the recent recession and slow down in the housing market, property growth in the district has remained relatively strong. The joint Local Plan for central Lincolnshire councils sees a need for significant growth in properties over the next 20 years. For the MTFS period, indications would see that an average growth in the Council Tax Taxbase of 1.25% being maintained to 2017/18.

The total amounts raised through Council Tax with 1.25% Taxbase growth and a 0% Council Tax increase for 2015/16 and thereafter a 2% increase would therefore represent:

2015/16 £4,916,000
2016/17 £5,075,000
2017/18 £5,240,000

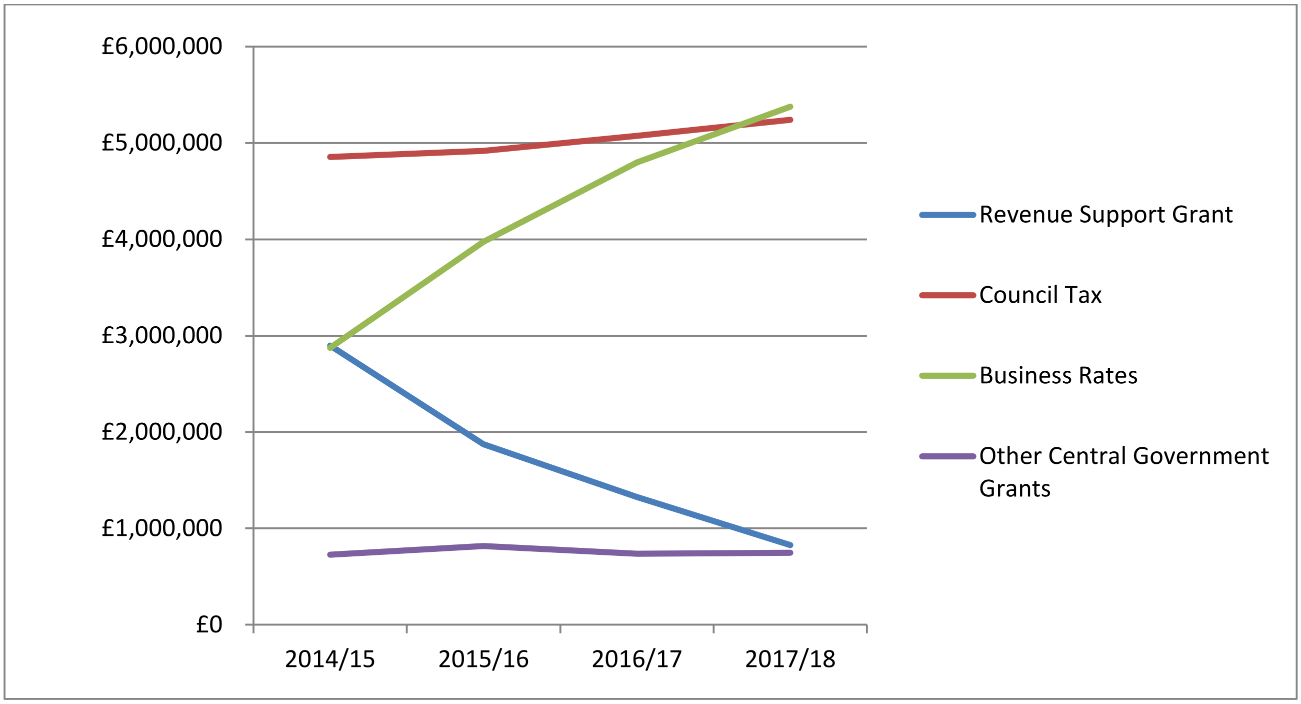
GENERAL FUND SUMMARY FUNDING FORECAST

The table below summarises the projected resource forecasts and their impact on the General Fund Summary for 2015/16 – 2017/18.

	£ (000) 2015/16	**£ (000) 2016/17**	**£ (000) 2017/18**
Total Spending Requirement	**11,616**	**11,898**	**12,497**
Funded by:			
Council Tax Income	4,916	5,075	5,240
Efficiency Support Grant	42	42	42
Business Rates Payers	4,011	4,626	5,082
Revenue Support Grant	1,875	1,327	826
Retained LCTS Grant	68	104	137
Return of New Homes Bonus & Safety Net	24	38	24
Collection Fund Surplus	(72)	30	466
Section 31 Grant (Business Rates reliefs)	752	656	680
Total Funding	**11,616**	**11,898**	**12,497**
Shortfall on General Fund	**-**	**-**	**-**

It is anticipated that the Council could achieve a balanced budget in 2015/16, 2016/17 and 2017/18 without the necessity to make further savings.

The following graph demonstrates the expected movements on the core General Fund funding elements over the MTFS period. While the Council's RSG is expected to reduce significantly over the period, income retained by the Council under the new Business Rates funding regime is expected to compensating the reduction experienced in RSG.



The risk in this forecast is that RSG represents a fixed funding income stream while Business Rates can be volatile and is very much subject to market/ economic conditions.

The above projections do not take account of any further savings that may materialise through the Councils transformation programme or any new service developments. There are a number of initiatives being pursued as part of the second tranche of the Council's Transformation Savings which may lead to savings in the Council's budget, if they are approved.

The above projections also do not take into account the use of the New Homes Bonus Reserve in order to support General Fund spending. The Council's current policy is to support 50% of any annual funding gap through the new Homes Bonus, but that has not been necessary to date and may not be required until 2018. However, it is important to note that this Reserve could rise to around £6.5million by 2018, even after using part of the fund to finance the North Kesteven Sports Centre refurbishment and Teal Park workshops.

As the Government withdraws Revenue Support Grant from local authorities the impact of the Council Tax Support Scheme (CTS) accentuates the funding dilemma with Parish and Town Councils. The previous assumption has been that Parish and Town Councils will continue to receive a CTS grant from this Council over the next 3 years based on current levels. This means that council tax payers across the district are effectively subsidising the spending plans of Parish and Town Councils.

Therefore, the MTFS assumes that the amount of grant passed on to Parish and Town Councils will reduce in line with the reductions being experienced in RSG by the Council.

HOUSING REVENUE ACCOUNT FUNDING POSITION

The HRA is currently showing a healthy financial position with a working balance of £2.4million carried forward into the current financial year. Rental income is estimated at £15.4million per annum and surpluses within the HRA are being allocated to the Major Repairs Reserve in order to help finance the Council's ambitious Housing Capital Programme. It is envisaged that a working balance of around £750,000 will be maintained within the HRA over the next 3 years.

Whilst there are many changes envisaged to services provided for existing and new tenants, the main financial issues revolve around the repayment of existing loans and rent levels from 2015/16 onwards.

The Council has a maturity loan of £2.8million that will be due for repayment in December 2015. At this point the Council will have 2 options available, which are:-

1. Repay the loan from the Major Repairs Reserve, or
2. Arrange a further loan (on the basis of repaying the principle on an annual basis).

The Council has sufficient housing resources to repay the loan without the need to re-borrow.

The Council has complied with the Government's rent restructuring requirements over many years but this policy is due to end in March 2015. From April 2015 Councils will be required to consider increasing rents by up to the Consumer Prices Index (CPI) plus 1% for all properties. Whilst the Council still has some way to go in order to achieve a social rent for all its properties, it will need to review its rent increase policy for 2015/16 onwards.

CAPITAL PROGRAMME POSITION

The Council is currently embarking upon the most ambitious capital programme since the mid 1980's.

Housing Capital Programme

The current years housing programme still has £5.8million available that has not been committed to new build schemes. There are a number of new build schemes in the pipeline, a number of which will receive financial assistance from the Housing and Communities Agency (HCA).

The Housing Capital Programme for the next 3 years is estimated to be around £27million and includes the regeneration scheme at Newfield, Sleaford (£8million), disabled adaptations (£1million), roofing works (£0.7million), energy conservation (£0.6million), heating works (£2.7million) and structural improvements to non-traditional dwellings (£1million). This will leave approximately £6.5million available for further new build initiatives over the next 3 years.

The above programme assumes that the Council will wish to utilise its maximum borrowing capacity during the next 3 years. It also means that the Council will utilise most of the available balances with the Major Repairs Reserve. There may be an opportunity to make a bid to Central Government for additional borrowing approvals to cover housing initiatives over the next 3 years.

Non- Housing Capital Programme

The current programme includes the major schemes already agreed by the Council for a new depot and workshops at Metheringham and the refurbishment of the North Kesteven Sports Centre. It also includes the capital contribution to the new workshops at Teal Park and the contribution towards the Lincolnshire broadband initiative. It has also been assumed that the Council will spend around £1.3million on Disabled Facilities Grants over the next 3 years.

Apart from the above, there are no other major capital schemes identified for the Non-Housing Capital Programme over the next 3 years. Whilst resources for Non-Housing Capital schemes are limited, it would be possible to utilise some of the Council's Reserves for new projects or to undertake further borrowing. The current approval is for the Council to borrow sufficient funds in order to finance the cost of the new depot and workshops at Metheringham (£2.8million). The Council may wish to consider whether it should utilise some of its Reserves to finance this capital project rather than borrowing, which would ease the financial pressure on the General Fund in future years.

THE MEDIUM TERM REVENUE AND CAPITAL PROGRAMME PROCESS

The preparation of the Council's revenue and capital programmes for the next three years commenced with a strategic review of the Council's vision, strategic objectives and corporate priorities. The Chief Executive will report to the Executive Board in October on the Council's Corporate Plan for the next three years.

The Medium Term Financial Strategy will be informed by the review of the Council's Corporate Plan. The Strategy will be submitted by the Deputy Chief Executive to the Executive Board also at its meeting in October.

During October/November, Corporate Management Team will hold discussions with each Heads of Services to consider the resource implications of delivering the Council's priorities set out in the Council's Corporate Plan and various other strategies and initiatives, together with the impact of external factors.

The discussions between Corporate Management Team and Heads of Service may result in a number of requests for additional capital and revenue resources for the next three years. These requests will then be prioritised to establish whether they can be supported through the budget process.

During these discussions, it will also be necessary to identify potential efficiencies and/or savings within current budgets which could allow the inclusion of some new developments over the next three years and maintain the low Council Tax levels.

Base budgets will be prepared for the General Fund, Housing Revenue Account and Capital Programme for the next three years. The base budgets will only include expenditure on functions and services that the Council is committed to provide. A review of the Council's fees and charges will also take place at this point.

By late December the Government will have announced the provisional finance settlement for 2015/16.

A report will be submitted to the Executive Board in January 2015 which will include draft base budgets, proposed new developments and possible efficiencies/savings that could be achieved over the next three years. The Executive Board will be requested to establish a target budget for 2015/16, together with forecast budgets for 2016/17 and 2017/18.

The Council's target budget will be submitted for scrutiny to the Performance and Resources Overview & Scrutiny Panel during January 2015. The Target Budget and Council Tax implications will also be the subject of consultation with representatives of Council Taxpayers and Business Ratepayers in the district.

The Executive Board, at its meeting in February 2015 will take into account observations from the Overview & Scrutiny Panel, together with the views of Council Taxpayers and Business Ratepayers before recommending a three year programme for the General Fund, Housing Revenue Account and Capital programme to the full Council which meets on 26th February 2015. A more detailed timetable of activities is attached at appendix 1.

Budget Assumptions and their Sensitivity

The base budgets will include assumptions regarding a number of issues which are set out in appendix 2.

Apart from new developments, population growth, inflation and pay increases the Council will need to consider the level of income that may be generated over the next 3 years, in view of the current economic situation. Current trends in the main General Fund revenue income streams see a significant recovery and this is likely to be sustainable over the next three years.

The main budget assumptions and the sensitivity around them and their potential impact on Council Tax have been assessed. A summary is contained within appendix 3.

Risk Assessment

A risk analysis has been prepared for the major items of income and expenditure included within the sensitivity analysis. This will form part of controlling the budget process and actions required to mitigate the risks around these assumptions have been identified.

Separately, a detailed risk assessment of material items of income and expenditure will be prepared as an integral part of the Council's capital and revenue programme. The risk matrix will identify the main areas of risk and appropriate actions required to respond to any major variations in the levels of expenditure and income over the next 3 years.

Budget Planning and Sensitivity

The current forecast budgets have been established based on activity levels in 2014/15 to establish a base position for the four 3 period.

Appendix 4 contains a summary of budget forecast relating to the General Fund. This has been compiled based on the assumptions of housing growth projected as part of the Core Strategy along with a 3% growth in business rates. The Council's financial position will be heavily affected by the growth or otherwise of housing and businesses in its area.

Appendix 5 contains a summary budget forecast for the Housing Revenue Account.

Appendix 6 contains projections around the Council's capital programme and capital resources.

Appendix 7 contains a summary of the position of all the Council's reserves as at 31 March 2014. The Council has a number of specific reserves set up in order to meet expected future expenditure. The requirement for each specific reserve will be reviewed as part of the budget process to ensure that a requirement is still realistic or to establish whether a reserve can be realised back into revenue budgets where a requirement no longer exists.

THE FINANCIAL CONTROL ENVIRONMENT

Financial management within the Council takes place within a very robust control environment that is fully outlined in the Annual Governance Statement. The key elements of the control environment are outlined below.

Constitution and Standing Orders

All Council business is conducted in accordance with the policies and procedures set out in the Council's constitution which defines how the Council operates, how decisions are made and the procedures that are followed.

Financial Procedures

In order to conduct its business efficiently the Council needs to ensure that it has sound financial management policies and procedures in place and this is done through its Financial Procedures that provide clarity about the financial accountabilities of individuals and the procedures that have to be followed.

- **Council -** The Council's financial affairs are operated through a number of Member committees which have delegated powers; however decisions that cannot be delegated are taken at meetings of Full Council.
- **Executive Board -** Each year, the Council agrees a policy framework and budget, and it is the responsibility of the Executive Board to implement the framework and budget. An Executive Board Member takes the lead for financial matters.
- **Overview and Scrutiny Panels-** The Council has three overview and scrutiny panels which have the power to "call in" decisions that have been made by the Executive Board, but not yet implemented, in order to enable consideration to be given to whether such decisions are appropriate. The Performance and Resources panel also scrutinise the financial performance and draft budgets.
- **Audit Committee -** The Audit Committee has the responsibility for providing independent assurance of the adequacy of the Council's risk management framework and the associated control environment. It provides independent scrutiny of the Council's financial and non-financial procedures and the Annual Governance Statement.
- **Internal Audit -** The Council maintains an adequate and effective system of internal audit of the accounting records and the systems of internal control in line with the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011.
- **External Audit -** An external audit service to the Council is currently provided by KPMG who report on an annual basis to the Council on their findings in respect of the Statement of Accounts, and the results of any additional inspection activity undertaken by them during the course of the financial year. The external auditors also report on the Council's Value for Money Programme.

Risk Management Strategy - The Audit Committee has overall responsibility for ensuring that the Council's risk management framework is robust, and provides an adequate level of assurance that strategic and operational risks which the Council faces, have been identified and that, where appropriate, action has been identified to manage the risks.

VALUE FOR MONEY

Value for money is the optimum balance between relatively low costs, high productivity and successful outcomes. (4Ps - local government project delivery specialist)

VFM is a mix of the three E's

- Economy – the price paid for service inputs
- Efficiency – measures of productivity - how much we get out for what we put in
- Effectiveness – measures of the impact achieved.

This Council recognises its responsibility to ensure that value for money is delivered from all of its activities, however they may be funded. Securing value for money services is a key factor impacting on the Council's ability to fulfil and discharge its statutory corporate governance responsibilities as well as delivering high quality services. The Council is committed to the pursuit of economy, efficiency and effectiveness, which together add up to Value for Money.

The Council has an established VfM & Efficiency Group and a Transformation Board which comprises senior officers and an Executive Board Member. The Board is responsible for preparing and implementing the transformation programme that will ensure the Council's efficiency and savings targets are achieved and that good practice is spread throughout the Council.

The Council is focusing on VFM for a number of reasons:

- Develop services to better meet the needs of its customers
- Improve customer satisfaction
- Internal pressures to reduce costs and achieve efficiency and savings targets
- Further grant reductions in future finance settlements.
- Loss of income due to the economic downturn.

Furthermore, value for money is the only statutory reporting aspect that remains.

Value for Money should not just be a strategy; it is also embedded into the culture of working at North Kesteven.