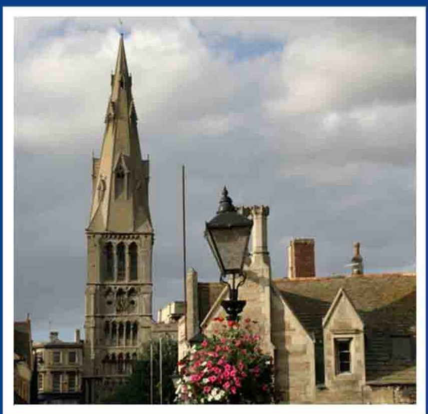
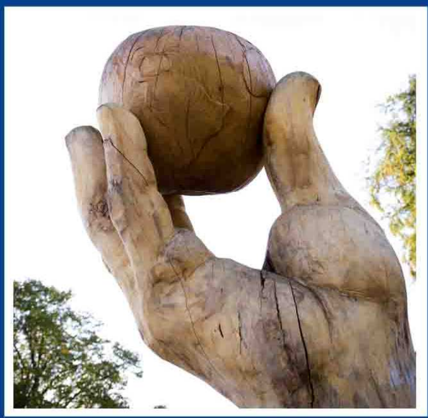
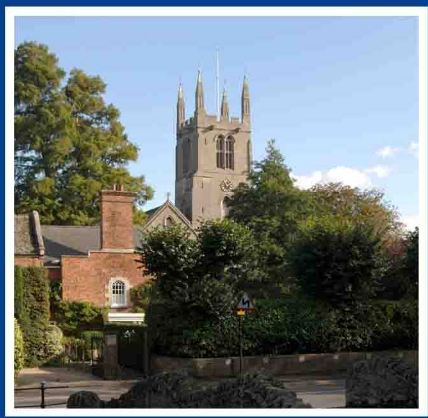
Medium Term Financial Strategy

2013/14 – 2017/18







your council working for you

South Kesteven District Council

STAMFORD • GRANTHAM • BOURNE • THE DEEPINGS

Index

Section

1. Introduction
2. Benefits
3. Objectives
4. Context – Global Financial Crisis, National and Local Economic Factors
4.1 Global Financial Crisis
4.2 National Context
4.2.1 The financial crisis
4.2.2 UK Growth
4.2.3 Inflation
4.2.4 Public Sector Finances
5. Local Government Funding
6. Local Context
6.1 Priority Based Budgeting
6.1.1 Priority Focus
6.2 Service Pressures
6.2.1 Pressures
6.2.2 Expenditure
6.2.3 Resources v. Expenditure
7. Funding Options – Establishing the Principles
7.1 Addressing the budget gap – establishing the principles
7.1.1 Principle 1
7.1.2 Principle 2
7.1.3 Principle 3
7.1.4 Principle 4
7.1.5 Principle 5
7.1.6 Principle 6
7.1.7 Principle 7
8. Capital Programme
8.1 Approved Capital Programme
9. Reserves and Balances
10. Risk Assessment

1.0 Introduction

The Medium Term Financial Strategy (MTFS) sets out the Council's strategic approach to the management of its finances in order to deliver its stated priorities laid out in the Councils Corporate Plan. It presents indicative budget levels which include assumptions around Council Tax and Government grant over the medium term. The scope of the MTFS includes the General Fund Revenue Account and the Capital Programme over the five year period. It also highlights the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks and ensure all it's plans are robust, realistic, achievable, deliverable and fully funded.

2.0 Benefits

The MTFS assists in:

- Meeting the priorities of the Council and delivering the Vision of 2021 by aligning resources.
- Improving financial planning and the financial management of the Council's revenue and capital resources
- Maximising the use of resources available to the Council, both internal and external
- Ensuring that the Council provides value for money and delivers budget savings
- Allowing the development of longer term budgets and strategic planning
- Reviewing the Council's reserves policy to ensure that the priorities are adequately resourced and there is financial protection against unforeseen events
- Responding to financial pressures and protecting front line services

3.0 Objectives

The main objectives of the MTFS are to:

- explain the financial context within which the Council is set to work over the medium term
- identify the financial resources needed to deliver the Council's priority outcomes
- achieve a stable and sustainable budget capable of withstanding financial pressures.
- Provide a cornerstone for the overall Budget and Policy Framework within the Council
- Establish a clear set of principles which underpin the medium term financial planning of the Authority

The Medium Term Financial Plan (MTFP) is being developed for each of the main financial areas taking account of the specific financial issues around spending and income pressures and the need to deliver a sustainable budget over the medium term. This will be presented as part of the budget proposals in March 2014.

4.0 Context – Global Financial Crisis, National and Local Economic Factors

4.1 Global Financial Crisis

The financial crisis of 2007–2008, also known as the 'global financial crisis', is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It resulted in the threat of total collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of US dollars, and a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign-debt crisis.

4.2 National Context

4.2.1 The Financial Crisis continues to bite in Europe and the Austerity measures in the UK continue to be enforced. The Governments economic plan to recovery has 3 main parts which is to keep mortgage rates low, fixing the banks to support business investment and tackle the country's debt position. The recent spending review reconfirmed the Government's approach to reduce the deficit by taking difficult decisions to cut public spending in order to prioritise investment in infrastructure. In order to achieve the Governments plans the latest budget in March 2013 announced a further 1% real cash reduction to most Government departments on top of the previous savings targets already announced as they have identified a further £11.5bn is needed.

4.2.2 UK Growth continues to be an issue with it not expanding as quickly as was anticipated. Various measures in the March 2013 budget to help stimulate the housing market and more national infrastructure projects have been announced. However, consumer spending remains subdued with some major high street chains going into liquidation. Interest rates continue at an historic low and this impacts on the investment returns received by the Council.

4.2.3 Inflation continues to be a concern with Consumer Price Index (CPI) projections being increased by the Office for Budgetary Responsibility (OBR) due to the likely higher costs of oil and imports in the future and the environmental and network costs being incurred by energy suppliers. It is projected to fall back in the medium term. The Council has to assess the likely inflationary pressures it will incur in the future for items such as pay, energy and fuel, ICT contracts, and general price increases for contracts, goods and services.

4.2.4 Public Sector Finances will continue to be squeezed in the medium term and whilst indicative grant allocations have been given for 2014/15 recent announcements in the June 2013 Spending Review have had a further detrimental impact on the provisional allocations. Consultation is currently underway on the Local Government Finance Settlement for 2014/15 and 2015/16 with a further 2.3% reduction in overall local government spending for 2015/16 and a 10% reduction in Local Government

Departmental Expenditure Limit. Running parallel with this is a consultation on proposals to allocate a proportion of allocated New Homes Bonus (NHB) to fund a pool within the Local Enterprise Partnership. There are a number of proposed mechanisms that can be introduced to shift this resource ranging from upper tier authorities contributing all of their allocated New Homes Bonus to an equal percentage model shared between upper and lower tier authorities (suggested 35.09%). The outcome of the consultation is awaited in order to determine the financial implication of the funding change.

5.0 Local Government Funding

Local Government funding has gone through a significant period of change in the last couple of years with the following significant changes:

- New Homes Bonus (NHB) – an initiative which rewards Councils for increasing their utilised housing supply as recognised in the tax base of the Council. It is worth noting that this is not income available for councils but is funding that has been sourced from existing revenue support grant budgets. For each dwelling increase an amount equal to the national average Council Tax due per band D property is paid for a period of 6 years. An additional payment of £350 per each additional social housing unit is also paid. With effect from April 2014 it is possible that a proportion of 35% of NHB generated will be passed over to Local Enterprise Partnerships who will control its distribution.

- Business Rates – this core grant (formerly part of 'formula grant') has been replaced with the part localisation of Business Rates which took place for 2013/14 onwards. This retains a proportion of the Business Rates at a 'local' level rather than the full amount being paid over to Central Government and then a proportionate amount was passed back through the Formula Grant. This is intended to reward Councils for the business growth in their areas. The Council can opt to 'pool' with other Councils to share/retain any additional growth 'locally' however this also has risks attached and therefore for 2013/14 this option hasn't been taken by this Council. 50% of Business Rates generated is passed straight to the Treasury, 20% is passed to upper tier authorities (Lincolnshire CC). The Council is subject to a "levy" on any BR raised above its local collection threshold, this can be up to 50% of the extra revenue generated.

- Revenue Support Grant (RSG) – this core grant (formerly part of 'formula grant') used to be a key part of the Council's resource base. However, this is the main area the austerity measures have impacted upon with significant reductions in 2013/14. The recent Budget announcements have introduced further reduction in the level of RSG in 2014/15 and 2015/16 as the Government uses the allocations to fund other areas such as funding the Business Rate safety net and meeting the recently announced reduced Government Department spending levels. In overall terms the RSG has been reduced by 24.2% between 2014/15 and 2015/16. It is anticipated that reductions of RSG will continue in the medium term as the Government continues its objectives of reducing the national deficit.

- Specific Government Grants – whilst some specific grants are still received the bulk of them have been amalgamated into the central government funding allocations. It is likely that this trend of incorporating them into the central 'pot' will continue in the future with Small Business Rate Relief being funded within overall Business Rates from 2014/15 onwards. Some grants are up to 2014/15 only.

- Council Tax – Council Tax is set locally by the County Council, Police and Crime Commissioner, District Council (SKDC) and Town/Parish Councils. The Council determines the level of it's share of the Council Tax when it considers and sets its budget in February/March each year. However, Council Tax is now under close scrutiny by the Government and various initiatives are now in place to restrict future Council Tax increases.

  There are three main elements to Council Tax:

  – Council Tax Base (i.e. the number of properties which can be charged) - this is calculated annually and basically takes each household and multiplies it by its Council Tax Band (A to H), plus/minus amounts for discounts, exemptions, etc, to arrive at a Band D equivalent number of chargeable dwellings. If the overall tax base reduces the amount of Council Tax generated will also reduce therefore it is important that the tax base is maintained – and ideally increased – year on year.
  – Collection Rate – the amount actually collected compared to the amount due. Any reduction in collection rates will reduce the amount of Council Tax generated.
  – Council Tax charge (set by bands). Multiplying the tax base by the Council Tax charge gives the total amount that can be generated from Council Tax (after allowing for bad debts, non payment, change in circumstances, etc).

- Council Tax Technical Changes - recent technical changes have seen the tax base increase as some reductions and discounts were amended. These changes have been introduced in order to meet the funding shortfall in the funding grant received from Government in order to fund the local Council Tax support scheme and to change behaviour with respect to specific exemptions, specifically empty homes premium of 150% payable Council Tax.

- Council Tax Referendum – The former capping regime has been replaced with a referendum mechanism where there are 'excessive' Council Tax increases proposed. Each year the Government will determine the rate of increase above which increases are deemed to be 'excessive'. This was set at 3.5% for 2012/13 and 2% for 2013/14 although up to a £5 increase was allowed for lower quartile Council Tax level authorities (this Council took this option for 2013/14). This 'excessive' mechanism can apply to all tiers of Local Government including Town and Parish Councils.

- Council Tax Freeze – The Government made a commitment to support Councils to freeze their Council taxes in 2011/12, 2012/13 and 2013/14. This comprised of the payment of an un-ringfenced grant – the amount of which has varied and also the period it is payable for. For example, the 2011/12 was a payment equal to a 2.5% increase and was payable for 3 years. The 2013/14 was a payment equal to 1.0% and was payable for two years only. In the spending review announcements in June 2013 the Government has announced further available Council Tax freeze grant of 1% for both 2014/15 and 2015/16 and a referendum threshold of no more than 2%.

- Council Tax Support – previously Council Tax benefit was fully funded by the Government via a grant subsidy methodology. From 2013/14 Councils have had to develop and approve their own schemes for the amount of Council Tax Support that it is to provide in the future within the context of not impacting on pensioners and delivering a 10% overall reduction in costs had to be achieved. This is no longer paid as a ‘benefit’ but is instead shown as ‘reduction’ on the Council Tax bill. The introduction of a maximum eligibility threshold of 80% has resulted in more residents paying a proportion of their Council Tax bills than previously.

- Fees & Charges – fees and charges form an important part of both the General Fund budget in terms of fees paid by users netting down the budget requirement. The current economic difficulties has impacted on some income streams especially in Planning related services and therefore prudent estimates of future income generation from fees and charges must be adhered to. Also, the market will only take certain level of fees and therefore the optimum level of fee level versus market resistance needs to be achieved. The approved Fees and Charges Strategy sets out the Council’s approach to fee setting and forms part of Principle 3 referred to later in the MTFS.

6.0 Local Context

District Councils have a duty to provide a range of services for the local community and visitors to the area. This means that many of South Kesteven’s services are governed by statute and are classed as ‘mandatory’ – it has to be delivered. However, the level and method of delivery is decided locally.

Additionally, each local area will have its own needs and priorities. Therefore as well as the statutory services a range of ‘discretionary’ services are also delivered. For either category of spend there has to be a legal power to undertake the service.

The current priorities are set out in the Council’s Corporate Plan and are:

‘Creating the Environment to’ :-
- Grow the Economy.
- Keep SK Clean, Green and Healthy.
- Promote Leisure, Arts & Culture.
- Support Good Housing for All.

Underpinned by 'Well Run Council'

Sitting alongside the Corporate Plan are a number of other strategies (such as People Strategy, Customer Services Strategy, ICT Strategy) and detailed service plans. The Medium Term Financial Strategy and the Annual Budget Report provides a key link of all the financial implications of these plans and strategies to ensure they are robust, sustainable and affordable.

6.1 Priority based budgeting

6.1.1 Priority Focus - The service priorities are derived from the overarching Corporate Priorities. Not all services may directly link to the Corporate Priorities – however they may still be essential as they are providing statutory services or essential support functions. The focus of the budget setting process will be driven by priority based budgeting whereby resources will be allocated based on clear priority outcomes. This is a shift of emphasis from the more traditional service led budgeting where resource allocation can be out of alignment with the priorities of the Council.

6.2 Service Pressures

6.2.1 Pressures - Of course the base budget does not stand still. The cost of services may increase (or decrease) by factors external to the Council such as:

- Inflation – like any other household or business the Council is impacted by inflationary pressures. This can be from pay awards (these have been frozen in recent years but are likely to increase from 2013/14 onwards – 1% has been assumed), energy costs, fuel costs, contractual price increases, etc.

- Legislation changes – changes in legislation or case law may require service delivery changes, reviews of fees and charges, new services to be delivered, etc.

- User demand – the growth in user demand may lead to increased costs – often with 'stepped costs' incurred. So for example additional housing may be accommodated by the refuse fleet, but at a point an additional round/vehicle/staff may be required to meet the additional demand.

- Income – user demand can also impact on income levels. Whilst fees and charges are reviewed annually the net income achieved may be reducing due to lower user demand. Since the economic downturn, particularly in the housing market, reductions have been noticeable in planning related activities, land charges and car parking.

6.2.2 Expenditure

Expenditure estimates have been increased where appropriate based upon the inflation factors and have been extrapolated for the next 4 years. Income estimates have also been increased where appropriate to reflect likely increases in fees and charges, usage, etc. All other income and expenditure remains as per the 2013/14 approved budget (i.e.

no change).

The table below sets out the summarised position based upon the ‘likely’ assumptions.

GENERAL FUND ‘Likely’	2013/14 Original £000’s	2014/15 Indicative £000’s	2015/16 Indicative £000’s	2016/17 Indicative £000s	2017/18 indicative £’000s
Net Cost of Services	15,619	15,302	15,556	15,868	16,183
Interest, fund movements, CTS Grant, etc.	(1,551)	(1,980)	(1,614)	(2,127)	(2,037)
Budget Requirement	**14,068**	**13,322**	**13,942**	**13,741**	**14,146**

Funded by:	2013/14 £000’s	2014/15 £000’s	2015/16 £000’s	2016/17 £000’s	2017/18 £000’s
Retained Business Rates	2,665	3,200	3,286	3,388	3,503
Revenue Support Grant	4,845	3,629	2,581	1,838	1,214
Safety Net Payment	300	-	-	-	
Small Business Rate Relief Grant	108	TBA	-	-	
Sub total	**7,918**	**6,829**	**5,867**	**5,226**	**4,717**
Council Tax (inc SEA)	6,113	6,279	6,469	6,664	6,866
Collection Fund Surplus	37	-	-	-	-
Total	**14,068**	**13,108**	**12,336**	**11,980**	**11,583**

6.2.3 Resources v. Expenditure

The table below shows the overall budget position using the most likely scenario for resources and expenditure. For 2015/16, 2016/17 and 2017/08 deficits of £1.606m, £1.761m and £2.563m are forecast, as resources are forecast to reduce at a faster rate than expenditure. This can attributed to the reductions in the RSG and no forecast usage of NHB monies to fund the General Fund expenditure.

Likely scenario	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000’s
Budget Requirement	14,068	13,322	13,942	13,741	14,146
Resources	**14,068**	**13,108**	**12,336**	**11,980**	**11,583**
Budget surplus / (deficit)	0	(214)	(1,606)	(1,761)	(2,563)

The table above represents the likely scenario. However, through only small changes to the assumptions made in preparing this “likely” forecast, the overall budget position will change. Therefore, it is also important to consider the “best” and “worst” scenarios; the table below provide a summary of the three scenarios.

Scenarios	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000's
Best	0	199	(1,202)	(1,292)	(2,040)
Likely	0	(214)	(1,606)	(1,761)	(2,563)
Worst	0	(489)	(2,077)	(2,355)	(3,273)

It is important to note that the figures below do not include factors such as the impact of localising support for council tax (on the council tax collection rate), the loss of specific grant funding and other budget pressure. It is probable these factors will reduce resource and increase expenditure for each of the three scenarios above. Further work will be undertaken on each of these factors in order to quantify their impact, in order to include them within the scenarios.

The forecast confirms that from 2015/16 onwards a budget gap begins to emerge as the Government grant reductions continue. This gap could be further widened following a combination of future Government grant reduction announcements and emerging budgetary pressures not currently identified. Other budgetary pressures will emerge as there are a number of variables and assumptions included in the 'net cost of services' line shown in the table. Therefore it is imperative that in-year forecasting continues to be undertaken to ensure the Council carries out the delivery of its priorities and that resources are fully utilised.

7.0 Funding options – Establishing the Principles

7.1 Addressing the Budget Gap – Establishing the Principles

The MTFS seeks to introduce a number of key principles which will be adopted when undertaking the cyclical budgetary process which will allow medium term financial planning to be undertaken. These principles will be implemented to address the budget gap as it increases over the medium term. These are set out as follows:

Council Tax levels

The Authority locally can set its annual Council tax level and the Government sets out its guidance on appropriate levels of increase. Any increase that exceeds the Government suggested level will require the Council to hold a referendum with its residents with the Council having to bear the costs of holding such a referendum. Since 2011/12 the Government has offered a Council Tax freeze grant to those authorities who maintain their council tax at the previous year's level. This freeze grant can vary but is typically equivalent of 1% of the Council Tax amount.

7.1.1 Principle 1 - Council Tax levels shall be set each financial year having regard to the prevailing conditions at that time. Specifically the factors that will be considered will be inflation levels, community aspirations and Government guidance on referendum levels including any available Council Tax freeze grant.

Government grants
With effect from April 2014 all specific grants will be incorporated into the combined revenue support grant (RSG) and therefore the Council will no longer have visibility of the amounts of the specific grants. Whilst this enables the Council to allocate grants where it chooses, the RSG will face cuts over the medium term which will then impact on all grants.

7.1.2 Principle 2 – Resources and un-ring fenced grants will be allocated to fund the delivery of the priority outcomes that residents have said are important to them.

Fees and Charges
The income from fees and charges is an important income stream to the Authority and fee setting should be carried out in accordance with the polices set out in the fees and charges framework. Where possible, income should be set at a level that meets the operational costs of providing the service which will result in fees and charges increasing in line with the costs of providing the service. However it is recognised that fees and charges play a wider objective that purely income generation in that they can be used to promote certain activities that support the Council priorities. Furthermore they can be used to encourage particular participation where excessive charging may be a barrier to entry.

7.1.3 Principle 3 – all fees and charges should be reviewed annually and inflationary increases should be introduced having regard to the service contribution towards delivery of the priorities and the market conditions prevailing at that time.

New Homes Bonus
NHB is now a key income stream for the Council and over £2M is expected to be received in 2013/14. This was funding previously allocated as part of the Revenue Support Grant. The Council is financially rewarded for each additional property it adds to it's Council Tax base and a further £350 for each additional affordable housing property. The scheme will pay the equivalent of 6 years worth of average Council tax with 80% of this amount being paid to the district council. However, there are some doubts over the longevity of the scheme as Departmental budget controls are increased by Government (although there is no evidence to support this view at the present time). Based on this concern there is a view that the NHB income should not be used to support the General Fund budgets but rather be more targeted with respect to its use.

7.1.4 Principle 4 – the monies received from New Homes Bonus should be used to fund the delivery of Council priority projects and initiatives.

Localised Business Rates
This element of funding has been replaced with the part localisation of Business Rates which took place for 2013/14 onwards. This retains a proportion of the Business Rates at a 'local' level rather than the full amount being paid over to Central Government and then a proportionate amount was passed back through the Formula Grant. This is intended to reward Councils for the business growth in their areas. The Council can opt to 'pool' with other Councils to share/retain any additional growth 'locally' however this also has risks attached as any losses will need to be shared amongst the pool in the same manner.

7.1.5 Principle 5 – Undertake a review of pooling arrangements and ensure that pooling remains beneficial to the Council.

Efficiencies and Business Transformation Plan

Services need to continue to drive through efficiencies and continually review their working practices and operations to try to make them as efficient as possible. This can be achieved by staff/user suggestions, service reviews, transformation programmes, reviewing vacant posts, identifying budget underspends, benchmarking/comparison, learning from best practice, etc. More strategic approaches to service delivery can also be considered in terms of outsourcing, bringing services back in-house, working with partners, voluntary sector, etc. A Plan has been developed that provides a detailed analysis of all the transformation projects including the targeted savings total for each project.

7.1.6 Principle 6– Review and update on an annual basis the Efficiencies and Business Transformation Plan and monitor achieved savings.

Treasury Management and Capital Framework

Treasury Management is a key component of any business and especially the impact of interest rates. During the global crisis interest rates have been at historically low rates with the Bank of England base rate being at 0.5% since March 2009. This has had a significant impact on investment returns generated from the investment of cash flows, funds and reserves held by the Council. On the positive side, it has meant borrowing costs are now reduced and therefore when compiling the Capital Framework, due regard to financing arrangements need to be considered.

The Capital Framework sets out the approach to the Councils capital spending plans and how it will resource these in the coming years. Any Capital Project agreed must be explicit about the revenue consequences both in terms of operational costs and the initial funding costs, whether this is loss of investment interest or servicing borrowing costs. Future capital resources need to take account of Asset Management Plans for both expenditure requirements to keep assets fit for purpose as well as likely asset sales generating future capital receipts to be reinvested.

7.1.7 Principle 7 – Regularly review and monitor the Treasury Management and Capital Framework with particular focus on the opportunities for borrowing compared with the cost of holding the debt. Regularly review the Council's asset portfolio to ensure they directly contribute to the delivery of the priority outcomes. Where possible capital investment should be in projects that see the return of the initial invest in order that returns can be allocated to future projects.

8.0 Capital Programme – General Fund

The Council's plans for capital investment are used to develop the Capital Programme, which includes capital expenditure associated with the General Fund. The programme is driven by the need to get maximum value for money from the Council's assets by making sure that they are well maintained and remain fit for purpose, within the limits of available funding. (The 'support good housing for all' priority shown for the Capital Programme relates to General Fund only such as Disabled Facilities Grants and Better Homes and does not include any investment in Council Housing stock).

Although the Council can borrow to fund its capital expenditure, the cost of the repayments often makes this option unaffordable and so its future capital requirements in the medium term will mainly depend upon existing earmarked resources and a well managed programme of asset disposals; using assets that are no longer suitable or cost effective to fund the acquisition and development of assets for improved service delivery. Of course any asset disposal must represent value for money and therefore issues such as market conditions, timings and wider benefits all need to be taken into account.

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

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

Using Reserves and Receipts impacts on the investment returns that are currently been achieved – however with interest rates at historically low levels this has fairly minimal impacts. If interest rates increase in the future then this has a larger financial impact. Prudential borrowing can be the most expensive way of funding Capital Expenditure – however again due to low interest rates it is currently advantageous to borrow if you can demonstrate there is a borrowing need to support the Capital Programme in the future.

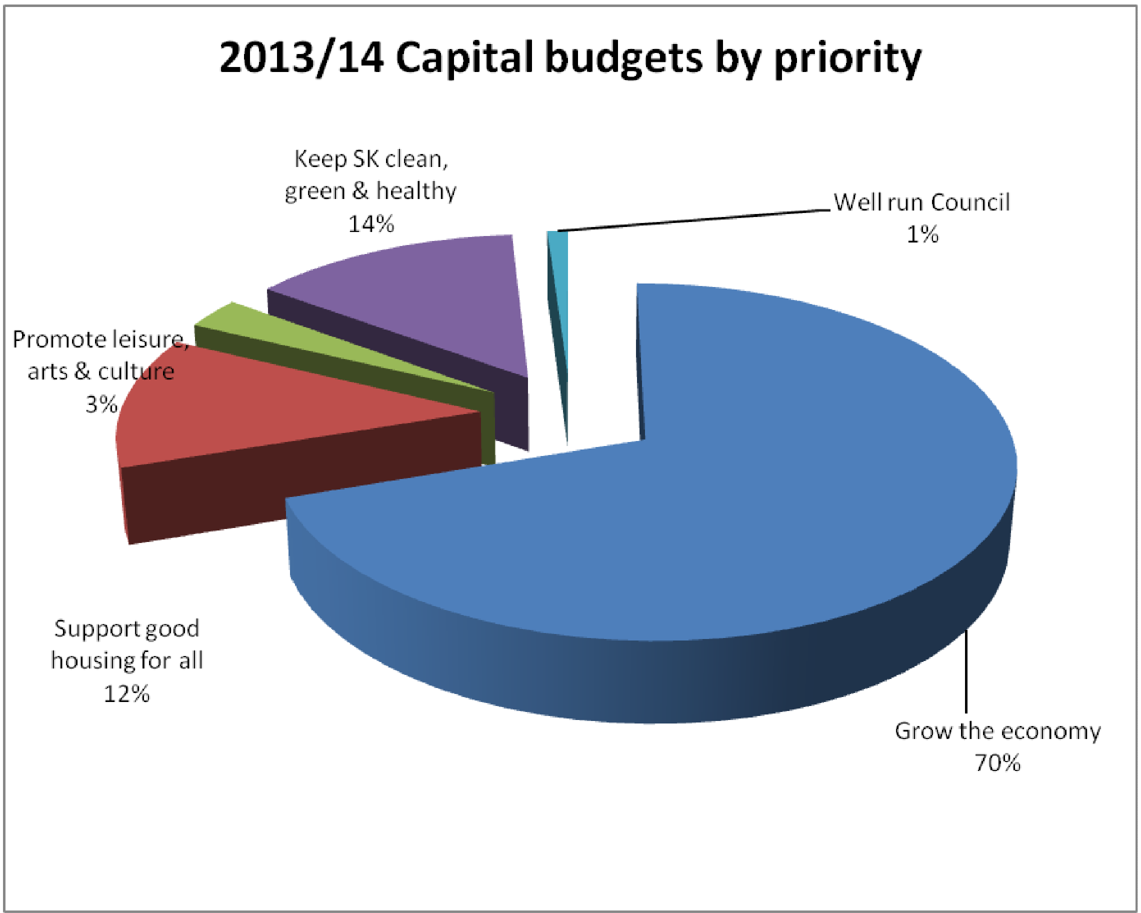
8.1 Approved Capital Programme

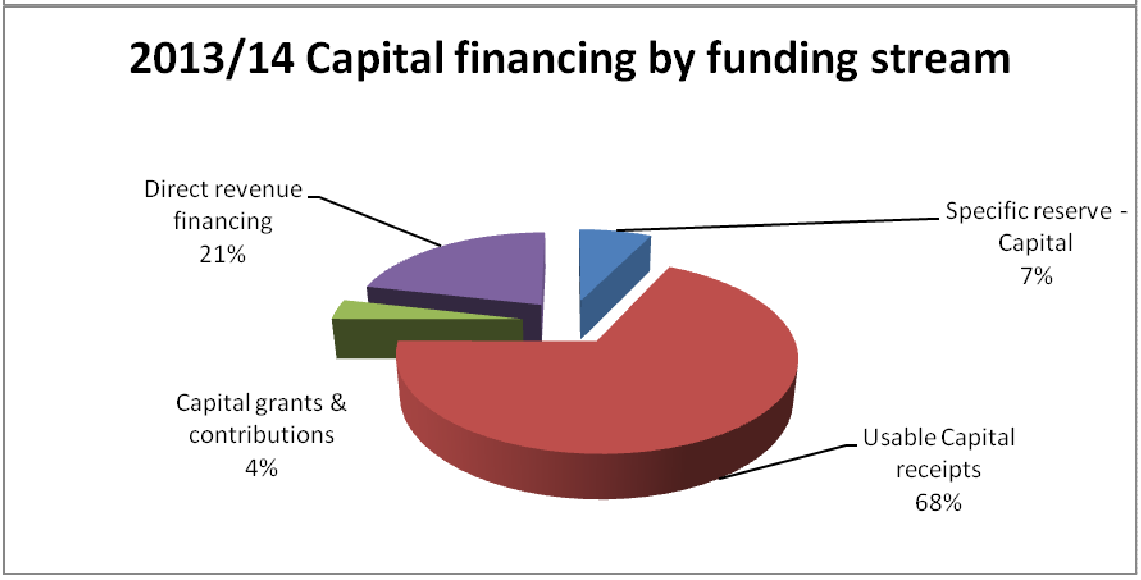
The current approved capital programme is summarised in the table below:

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000's
General Fund	7,111	2,733	1,767	1,412	1,126

The Capital Programme is to be resourced by:

General Fund	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000's
Reserves	515				
Capital Receipts	4,822	1,934	971	648	372
Grants and Contributions	254	254	254	254	254
Revenue Contributions	1,520	545	542	510	500
Total GF Financing	**7,111**	**2,733**	**1,767**	**1,412**	**1,126**





This is reviewed at least twice annually at closedown and budget setting and it is important that the projects have strategic links to the corporate priorities, procure and/or maintain assets required for service delivery, address health and safety issues, or meets the requirements of grants received (e.g. Disabled Facility Grants). In terms of financing the capital programme any capital grants and contributions will be allocated first as specific funding streams. The council will then look to use any specific Capital Reserves followed by the Usable Capital Receipts reserve. The last call on funding will be through direct revenue contributions and/or borrowing.

9.0 Reserves and Balances

The Council holds a number of Funds and Reserves for various specific, capital or general related reasons to help to fund delivering the Priorities of the Council or to mitigate some of the risks identified above. These reserves are split into;

- Revenue Reserves – earmarked for specific issues.
- Unapplied Grants – grants received but not yet utilised or for grants which the conditions have not yet been fully met.
- Working Balance – general reserve for meeting risks in the General Fund budget (eg reduced income levels, unforeseen expenditure, etc).
- Capital Reserves – utilised for funding Capital Programme spend.

The schedule of current funds and reserves is summarised below:

General Fund	Projected Balance 31/03/13 £000's	Projected Balance 31/03/14 £000's	Projected Balance 31/03/15 £000's	Projected Balance 31/03/16 £000's
Revenue Reserves	7,373	7,609	8,121	8,721
Unapplied Grants	2,848	4,340	6,885	9,716
Working Balance	1,571	1,571	1,571	1,571
Total Revenue Reserves	**11,792**	**13,520**	**16,577**	**20,008**
Capital Reserves	**7,406**	**3,896**	**3,049**	**2,590**
Total General Fund Reserves	**19,198**	**17,416**	**19,626**	**22,598**

10.0 Risk Assessment

A comprehensive financial risk assessment is undertaken for the Revenue and Capital budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified. These are reviewed each year as part of the update of the MTFS. The key strategic financial risks to be considered in developing the MTFS are as follows:

Risk	Likelihood	Impact	Risk Management
Future available resources less than assumed in the MTFS. The Government's spending review for 2015/16 could have a significant impact on future grant awards	High	High	Continual review of priority spending and implementation of transformation and efficiency plan

Future spending plans underestimated	Possible	Medium	Service planning priority process to identify emerging spending pressures. Reviews to model delivery of services linked to Council priorities
Income targets not achieved	Possible	Medium	Current economic climate likely to have a detrimental impact on specific income headings. Regular monitoring and review of income required
Reducing investment levels	High	Medium	As reserves are utilised to deliver capital programmes and priorities there will be an impact on investment income received. Need to consider alternative funding arrangements and identify other investment opportunities
Changes to Government policy leading to additional Council responsibilities	High	High	The localism agenda may create additional responsibilities for the Council to delivery services leading to the need to manage expectations with a challenging financial environment
Affordability of Capital Programme	Possible	High	Ability to fund capital programme in order to deliver priority projects and ongoing capital investment in key services
Negative financial impact following the introduction of the Business Rates Retention scheme	High	High	The level of financial risk to the Council has increased following the BRRS. The Council will need to undertake regular monitoring of its business base and be able to attract inward investment in order to maintain its financial position

South Kesteven District Council

Finance and Risk Services
Council Offices
St. Peter's Hill
Grantham
Lincolnshire
NG31 6PZ

tel: 01476 40 60 80

accountancy@southkesteven.gov.uk

www.southkesteven.gov.uk