

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 14 September 2011

BUDGET STRATEGY 2012/13 ONWARDS

Issue for Decision

To consider and review the medium term financial strategy (MTFS) for 2012/13 onwards along with developments and emerging issues that will affect the revenue and capital budget for 2012/13. This will provide draft assumptions that will develop the MTFS for 2012/13 onwards for planning purposes and to enable consultation, including the context of the revised strategic plan and the report of the Head of Change and Support considering the timetable for the review of the strategic plan and the development of this strategy.

Decision Made

1. That the strategic revenue projection that gives the most likely outcome for planning purposes be agreed.
2. That the level of council tax for planning purposes be agreed as 2.5% per annum over the period of the strategy.
3. That the extent of the capital programme and the current likely financing arrangements be noted.
4. That the outline proposals for consultation and delegation of the development of the final format and questions to the Head of Communications in consultation with the Leader of the Council be agreed.

Reasons for Decision

For many years Maidstone Borough Council has considered strategic budget issues at an early stage. To enable balanced consideration of the MTFS with the revised strategic plan there has been a short delay in this year's production of this initial budget strategy report. This year's revisions to the strategic plan have produced a plan focused on three key priorities and the short delay has enabled ongoing work to identify and prioritise actions to achieve the six outcomes that support those priorities.

The MTFS and the strategic plan must be closely aligned to achieve maximum benefit from either strategy. The three priorities set out in the strategic plan are:

- a) For Maidstone to have a growing economy;
- b) For Maidstone to be a decent place to live; and
- c) Corporate and customer excellence.

The detailed actions required to achieve the six outcomes are contained within the service plans of the organisation and within the specific budget heads for those services. At the level of the budget strategy the links with the strategic plan require an assurance that a balanced and prudent budget is set that ensures continued funding for priority service areas and where necessary funds any growth required.

In addition to the revision to the strategic plan, the development that occurred during 2010/11 to the MTFS for 2011/12 provided a comprehensive assessment of the Council's financial situation. It included the development of a four year plan of savings and efficiencies for the budget based upon the developments and issues known at that time. This means that proposals to achieve £1.1m in efficiency and other savings have already been identified for 2012/13 and actions already taken total approximately £0.5m.

The report of Management Team firstly considers the context in which the MTFS 2012/13 is being developed. It then considers each of the major elements of both the revenue and capital financial projections in relation to any known further developments or emerging issues that may possibly require an amendment to the MTFS as set out for 2011/12 onwards.

Background

Set out at Appendix A to the report of Management Team is the budget summary for 2011/12 which was agreed by Council in March 2011. This was developed from the work on the MTFS for 2011/12 onwards. The summary has been reconfigured to show the current Cabinet portfolio structure.

Also attached to the report of Management Team, for further background information are the following:

- a) Appendix B: The current MTFS for 2011/12 onwards;
- b) Appendix C: The current statement of balances projected to March 2011. This takes into account the outturn position for 2010/11 as reported to Cabinet in May 2011.

The Local Context:

The outturn position for 2010/11 was reported to the Cabinet meeting in May 2011. The report showed that along with a small number of general carry forward requests, significant sums were carried forward against budget heads that are funded by external grant aid and the balance of revenue support so far set aside for the capital programme. The assumption used in financing the capital programme at this time is that revenue support will be utilised as the last funding stream, as revenue resources can be used more flexibly.

The resulting under spend for 2010/11 was £4m. Of this sum £2.7m was approved by Cabinet against carry forward requests of all types, leaving a contribution to balances of £1.3m. In considering a report on the heating systems at the Hazlitt Theatre, as part of the same agenda in May 2011,

Cabinet approved additional revenue support to the capital programme of £0.31m. The net effect was that unallocated balances increased by £0.89m.

The work completed in 2010/11 on the MTFS means that the budget for 2011/12, a summary of which is attached at Appendix A to the report of Management Team, is a balanced and deliverable budget. The first quarter's monitoring report to Cabinet in August 2011 showed a favourable variance on more than £0.4m. This variance is formed from two major spending areas, Supplies and Services (which includes items such as office supplies and professional and consultancy services) and Building Maintenance costs. At this stage in the year budget monitoring shows that the budget is being managed well but it may be too early to be certain that a variance on these spending areas, which are often less predictable or slow to develop against a new budget, will remain throughout the year.

These local factors contribute to a very stable base on which to build the 2012/13 budget strategy.

The National Context:

Last year, when considering the MTFS for 2011/12 onwards, the Government had just announced its initial plans for the public sector spending reductions that would form a major part of its comprehensive spending review. At that time much of the information that was required to create the 2011/12 budget was speculative and, although some things have progressed, many of the planned developments remain speculative or under consultation.

The initial effect of government plans on the country's recovery from the economic downturn has been slow and as with most long term plans it can be expected that, if the plan is successful, recovery speed will increase. Tabulated below are the national indicators of growth and debt given as a result for each calendar year along with the current position at July 2011.

| Index | 2008 | 2009 | 2010 | 2011 at July |
|--------------|-------------|-------------|-------------|-------------------------|
| | 3.5% | -3.6% | 1.5% | 0.7% |
| Debt | £614.4bn | £796.9bn | £909.0bn | £940.1bn |

Other useful indices for consideration in the MTFS include RPI (retail price index), CPI (consumer price index), the base rate and the 7 day LIBOR (London inter bank offered rate). These are tabulated below but are considered at financial year end rather than at calendar year end.

| Index | Mar 2009 | Mar 2010 | Mar 2011 | Aug 2011 (Current) |
|--------------|-----------------|-----------------|-----------------|-------------------------------|
| RPI | -0.4% | 4.4% | 5.3% | 5.0% |
| CPI | 2.9% | 3.4% | 4.1% | 4.4% |
| Base Rate | 0.5% | 0.5% | 0.5% | 0.5% |
| 7 Day LIBOR | 0.67% | 0.55% | | |

The Government notified the Council of its provisional Revenue Support Grant for 2012/13 during February 2011. The sum notified is a 12%

reduction when compared to the 2011/12 cash value. In October 2010 as part of the spending review the Government indicated public sector spending reductions of 25%. This grant reduction, along with the reduction received in 2011/12, form part of that cut. The balance of the spending reduction will be identified by central government over the two remaining years of the review period, 2013/14 and 2014/15.

At this time the Government has commenced consultation on future central government funding for local government. The main proposal in the first phase of their review is the potential re-localisation of business rates. The current intention is for this review to be completed in time for the 2013/14 financial year but details of how this will affect future reductions in funding are unclear. This matter is discussed later in this report when considering possible assumptions on future funding reductions in detail.

Other issues that may have a further effect upon the MTFs include:

- a) The ending of the council tax freeze grant in 2014/15;
- b) Changes to council tax and housing benefit that will be brought about by the Welfare Reform Bill;
- c) Further changes to public sector pension arrangements;
- d) Follow on consequences of the back loaded reductions in government funding for police and fire authorities.

The Strategic Revenue Projection

The strategic revenue projection is a model used annually by Cabinet to concisely project the effect of major local and national priorities on the future revenue budget of the Council. In the past Cabinet has used a document that models three outcomes. This enables Cabinet to consider the outcome recommended by this report against the best case and worse case outcomes.

All three models use a number of factors such as inflation rates and the consequences of local and national initiatives. These are assumptions about the future consequences of the current situation. In the most significant cases they are discussed individually in this section of the report.

The three strategic revenue projections are set out at Appendix D to the report of Management Team and modifying the "most likely" outcome using individual changes to the assumptions, as another alternative to its adoption were considered.

The assumptions applied to each outcome create a significant amount of detail and the most appropriate way to show this comparatively is in a matrix. This matrix is set out at Appendix E to the report of Management Team. The values quoted in this report relate to the assumptions used in the "most likely" strategic revenue projection that is recommended for approval. Details of the "best" and "worse" case assumptions are given only in Appendices D and E to the report of Management Team.

Significant assumptions in the strategic revenue projections

Inflation indices: These have been considered in detail and the expenditure budget divided between employee costs; energy costs; business rates; contractual commitments and other running costs. In each case the rate of inflation applied has been discussed with service managers to ensure it is appropriate. In the case of employee costs, whilst there is no increase for 2012/13 in line with Cabinet's previous decision, the consequence of paying £250 to employees earning less than £21,000 has exacerbated the risk that the Council faces with regard to equal pay and pay differentials.

At this time the Head of Human Resources is undertaking the normal review of the pay levels which must occur in line with the commitment made by the Council when the pay structure was adopted. Cabinet will receive a report from the Head of Human Resources at its October 2011 meeting on the results of this review and other issues currently being reviewed on pay and performance. Due to the unquantifiable risk the review creates at this time a provision of £0.16m, which is equivalent to 1% of employee costs, has been incorporated into the strategic revenue projection.

Welfare Reform Bill: The consequences of the Welfare Reform Bill are expected to include amendments to council tax benefit arrangements and the transfer of housing benefit into the proposed universal credit. In the case of council tax benefit this will include a 10% reduction in government funding and an amendment to council tax benefit to make it a local "discount" rather than a benefit. For Housing benefit there will be a loss of a specific government grant and the transfer of employees to the Department for Works and Pensions over a transitional period.

For council tax benefit a budget pressure has been included in the strategic revenue projection for 2013/14 that considers the effect of an increase in bad debt from a 10% reduction in resources available to discount council tax bills. For housing benefit the strategic revenue projection includes a budget pressure in 2014/15 that is the net cost of lost administration grant and reduced employee levels. It is anticipated that this loss will be regained after the transitional period is over and this is outside the period of the MTFS.

Council Tax Freeze Grant: The grant is payable by central government for the four years from 2011/12 to 2014/15 as funding to replace a 2.5% increase in council tax. This required the Council to freeze its council tax in 2011/12. The sum payable is £0.34m per annum and the strategic revenue projection includes a provision for the additional cost to the revenue budget of no longer receiving the grant from 2015/16.

King Street Car Park lease: Although arrangements are progressing on the future use of the unit on the ground floor of King Street Car Park, the termination of the lease with the current lessor means that the annual rental income of £0.13m will not be received in future. It is unlikely that any short term agreement reached will replace this lost income. Due to this risk the strategic revenue projection includes a provision of £0.1m against this loss.

Local Development Framework: Funding for the production of the local development framework has been provided in part from balances and in part from reward related grant such as the Housing and Planning Delivery Grant. Officers estimate that there is up to three more years of work to be completed, including various stages of inspection and consultation. Much of this cost cannot be found from base budget within the service and it is expected that the balance of one off funding will be utilised this year. Provisional estimates show a need for additional resources of just less than £1m. The strategic revenue projection incorporates a base budget pressure of £0.3m which will provide £0.9m over three years. Further work is still being completed on the provisional estimate and a more accurate budget will be produced before December 2011 when Cabinet will consider this matter again.

Funding for projects supported by grant: A number of grant funding streams have been affected by the government's reductions in public sector funding and there are occasions where grant is received by the Council indirectly and the effect on the host organisation has been "passported" to the Council. A significant example is the grant received for the Safer Maidstone Partnership. The grant has reduced in 2011/12 from just over £0.1m to less than £50,000. It is possible that this grant will not be available at all next year. A budget pressure has been shown in the strategic revenue projection to enable the Council to continue the work of the partnership through local funding.

Future service arrangements with Parish Councils: A budget pressure of £80,000 has been included in the strategic revenue projection to enable support to service areas that will be affected most heavily by the removal of the concurrent functions arrangements. This is intended to recognise the additional pressure placed upon the budgets for service areas that may be required to directly fund activity or enter into a funding arrangement with individual parish councils.

Resources Available

Income from rents, fees and charges: In general the income generated by services forms part of the net budget of the council and is treated separately from decisions on the level of RSG and the level of Council Tax.

The level of income generated by services through rents, fees and charges is in the region of £18m. In some case the council has the ability to influence the level of charge but in many cases the government either prescribes the charge or requires a charge that ensures the service reaches a break even position on cost.

Because of the variety of income types it is not appropriate to use RPI or CPI to generalise on a likely increase. To ensure that managers assess the suitability of increases in fees and charges when developing their budget the Council has a policy, adopted in 2009, on the necessary assessment of the market. This includes issues such as competitors and the effect a change in price will have on demand.

No action will be taken to prescribe an increase in rents, fees and charges, allowing services managers to complete this work individually for their service in line with the policy and as part of the required efficiency and savings target set out in the strategic revenue projection. This would accord with the assessment of the Council as a business that is currently being considered by Corporate Services Overview and Scrutiny Committee.

To ensure that awareness and control over developments is retained, income levels, future reports on savings proposals will specifically identify proposals for increases in income. Quarterly budget monitoring reports will then give assurance that income proposals are actually being achieved.

Revenue Support Grant: This grant is also known as formula grant due to the formulaic nature of its calculation. In fact the complex formula is one reason why central government is reviewing this funding for local government. This issue was considered earlier in this report as a national development. The government is currently consulting on the re-localisation of business rates and the consultation proposes that this will occur for the financial year 2013/14. At this time any estimate of the consequences to the Council's resources would be unreliable.

Revenue Support Grant will exist for the forthcoming financial year 2012/13 and the government's provisional values suggest the Council will receive a cash sum of £5.7m which is 12% lower than the cash sum received in 2011/12. The provisional nature of that sum will be updated by the government in December 2011. The Council will not receive final confirmation until January 2012.

Without the ability to estimate the consequences of the government's review of the formula grant process the most accurate assessment of future funding continues to be the details given in the spending review of October 2010. Modelling of the data in the spending review suggests a further reduction in grant of 1.2% in 2013/14 followed by a 7.6% reduction in 2014/15. The comprehensive spending review was a four year review and the data finishes in 2014/15. As a preliminary assumption for 2015/16 the strategic revenue projection includes a 5% loss of grant.

Council Tax: The level of council tax is affected by two factors. These are changes in the property base within the borough and increases in the charge set by the Council.

The property base or more specifically the tax base where it relates to council tax levels shows regular annual growth. In the calculation to set the council tax for 2011/12 the tax base growth was 0.9%. In the period since then property completions have not kept pace with that level. The strategic revenue projection includes a 0.5% increase in the tax base for each of the five years under consideration.

The level of charge set by the Council varies in accordance with need and prudence, it should be set to avoid the threat of capping or referendum whilst ensuring the final budget is balanced and delivers the Council's objectives.

Cabinet should be aware that due to the government control through capping legislation and the future referendum proposals, a council tax increase once forgone in any one year cannot be reinstated. The loss of council tax from the agreed freeze during 2011/12 was funded by grant aid from central government. This funding lasts until 2014/15. In 2015/16 the Council will need to find savings of £0.34m to cover the grant. As an indicative example of the long term consequences, over a period of 10 years the lost revenue expenditure equals £3.4m plus the compounding effect of future increases in council tax. If a 2.5% increase occurred in each of the 10 years, compounding would add a further £0.4m to that sum. The actual effect will not be reversible whilst capping or a local referendum exists as a controlling influence.

The strategic revenue projection includes a council tax increase of 2.5% for each year. For 2012/13 this would mean an average increase of £5.56 for each band D tax payer. This equates to 0.38% of the total tax bill of £1,476.80, which includes the charges for the county council, the police authority and the fire authority. Together with the 0.5% increase assumed for the tax base, this creates a 3% increase in this Council's tax resources.

A council tax increase assumption of 2.5% will be set for the purpose of planning and consultation and further consider this issue prior to its recommendation to Council in March 2012.

Savings and Efficiency

The strategic revenue projection identifies the predicted levels of resources available to the Council and the additional budget pressures facing the Council for each year of the MTFS. From this information a level of saving and efficiency required to create a balanced budget can be deduced.

The three versions of the strategic revenue projection set out at Appendix D to the report of Management Team produce the savings targets tabulated below.

| | 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|---------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Best Outcome | 1,512 | 609 | 932 | 710 | 356 |
| Most Likely Outcome | 1,861 | 797 | 1,251 | 971 | 538 |
| Worst Outcome | 2,081 | 905 | 1,885 | 1,103 | 767 |
| | | | | | |
| Savings Proposals | (1,131) | (800) | (580) | 0 | 0 |

The work completed in advance, during the development of the MTFS for 2011/12, means that significant progress has already been made to achieve the required savings. The currently identified savings available are also given in the table above. The specific details of individual savings proposals are not replicated in this report. This is because some of the proposals relate to structural change that requires consultation with the

members of staff who may be affected, before publication of the detailed information.

The most likely outcome from the range of strategic revenue projections, then additional savings of £0.73m, will need to be identified for 2012/13. In addition, savings of £0.67m in 2014/15 and £0.97m in 2015/16. A number of initiatives will assist the Council in identifying actions that will achieve these revised targets. These include:-

- a) A business improvement programme currently being developed to reconsider all service areas using a number of options such as partnership working, outsourcing, income generation and process improvements;
- b) A specific focus on enhancing the Council's capacity to generate income directly from the services that are able to charge for service provision;
- c) A review of all major contractual commitments;
- d) Ongoing reviews of new ways of working and staff structures.

Much of this work has been ongoing for a number of years and recent examples include the shared revenues and benefits service, the new parking enforcement contract and the rationalisation of service areas such as community development.

Capital Programme

The current capital programme was agreed by Council in March 2011 but has twice been amended by Cabinet since that time. The amended programme as set out at Appendix F of the report of Management Team has been moved forward to show the financial year 2015/16. At this time it assumes no programme in that year as resources will need to be approved and an assessment of priority schemes that are affordable will need to be made.

Summarised in the table below is the current assessment of resources available from revenue support, capital grants and contributions and capital receipts. This has been modified to include the additional revenue support agreed by Cabinet in May 2011, the current level of capital receipts received and the current best assessment of the timing and value of future sales.

| Funding Source | 2011/12 £ | 2012/13 £ | 2013/14 £ | 2014/15 £ | 2015/16 £ |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenue Support | 2,860,300 | 1,771,380 | | 487,500 | 655,840 |
| Capital Grants/Cont. | 2,468,810 | 1,735,130 | 450,000 | 450,000 | 450,000 |
| Capital Receipts | 1,930,190 | 1,350,000 | 1,567,500 | 882,500 | |
| | 7,259,300 | 4,856,510 | 2,017,500 | 1,820,000 | 1,105,840 |

Due to the additional receipts currently available, there is no longer a need for borrowing to finance the programme up to 2014/15. These additional sales also allow a revision to the timing and value of other outstanding sales to reduce the risk to the programme whilst providing a balance of resources that can be carried forward to support the development of a programme for 2015/16. The table shows that, including the potential disabled facilities grant, there will be resources of £1.1m available in 2015/16.

At this time there are no amendments proposed for schemes currently in the programme. The resources potentially available to fund additions to the programme are £1.1m as shown in the above table for 2015/16. In accordance with the MTFS an assessment of any new schemes should be carried out to identify their relative priority, benefit and affordability. This work can be completed at any time before the submission of the final budget to Council in March 2012.

As the future programme remains undeveloped and there remains a risk of potential borrowing if receipts from asset sales are not achieved at the appropriate time, it is recommended that Cabinet note the position on the programme and likely financing arrangements.

Consultation

Budget consultation is a formal and necessary element of the budget strategy process. It allows residents, customers, businesses and other stakeholders to provide feedback and opinion to Cabinet on the developing strategy. Annual consultation is completed between October and November each year to ensure the budget planning is sufficiently robust for the consultation and in time for the responses to influence the final budget.

In recent years Cabinet has taken a coordinated approach to the views it has sought during consultation. This has been done with the intention of building a body of knowledge about consultees' opinions on various elements of the budget.

During the development of the 2009/10 budget strategy the consultation was through a budget simulator to allow respondents to create their own budget and asked them to achieve a council tax increase below 5%. The choices available for growth or savings were larger key service areas that most respondents displayed a desire to protect, such as refuse and street cleansing.

During the development of the 2010/11 budget strategy the consultation was carried out by formal market research. This research focused on income generating services through consideration of price and elasticity of demand. Questions included the preference for payment for services by council tax or by direct fee at time of use.

During the development of the 2011/12 budget strategy members and officers completed comprehensive public engagement under the banner of "My Council, What Matter to ME" which reviewed opinion on discretionary

services and Cabinet's proposals for savings. It also gave an opportunity for respondents to put forward further ideas for consideration.

For the consultation during the development of the 2012/13 budget strategy it is essential that the focus is such that it builds upon and complements data from the previous consultations.

It is proposed that a "café conversations" road show be developed for 4 to 6 locations across the borough. The consultation would as usual include response through the website and directly to the council from an available leaflet along with simple advertising. It is also proposed to use a targeted survey to enable wider feedback. Although the budget was reduced during 2011/12 as part of the budget strategy work completed in 2011/12, funding for this consultation is available from within the communications budget.

Two general topics are proposed for the consultation covering the following areas:

- d) The correlation between service standards, customer satisfaction and cost. For example the cost of a specific level of provision may be influenced by the service standards set. In value for money terms, customers may be satisfied with an amendment to the service level if they could make a correlation to changes in the cost of the service.
- e) The importance to the customer of services identified by cabinet as low priority that are provided due to their statutory nature. This would follow from the consultation last year into the importance to customers of the discretionary services provided by the council. As these services are statutory it would be necessary to link this to service standards consultation proposal as the choice would be a lower standard of service rather than non-provision of a service.

The consultation could also take the opportunity to inform respondents on the subject of the actual cost of services in relation to council tax paid and the consequence to individual services of a loss of funding through council tax.

Alternatives considered and why rejected

The outcome of a number of the developments could be awaited, such as the final level of revenue support grant and more accurate information on any of the factors discussed in the report of Management Team. It is prudent to agree a revenue projection to enable planning for the required savings and for consultation to be completed.

With reference to the specific issues and assumptions within the report of Management Team, it is inevitable that a view will need to be taken on each issue and their future impact upon the Council be assessed. It is the intention of the report of Management Team to initiate discussion and

provide members with the opportunity to raise additional issues to be included in the MTFS.

Background Papers

Strategic Plan 2011/12 Onwards
Provisional revenue support grant 2012/13 – notification
Corporate Fees & Charges Policy

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| Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Change and Scrutiny by: 22 September 2011 |
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