

# **POLICY & RESOURCES COMMITTEE**

**17 FEBRUARY 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

**No**

## **MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS**

|                                       |                             |
|---------------------------------------|-----------------------------|
| <b>Final Decision-Maker</b>           | Council                     |
| <b>Lead Head of Service</b>           | Head Of Finance & Resources |
| <b>Lead Officer and Report Author</b> | Head Of Finance & Resources |
| <b>Classification</b>                 | Public Report               |
| <b>Wards affected</b>                 | All                         |

**This report makes the following recommendations to this Committee:**

**That the Committee agrees:**

- 1) Not to amend the previously set grants to parish councils under the local council tax support scheme as set out in paragraph 2.21;
- 2) That payment of local council tax support grant to parish councils will cease from 1<sup>st</sup> April 2017;
- 3) To note the results of the consultation exercises detailed in section 5 of the report;
- 4) To consider the views of Employment Committee and Democracy Committee and propose amendments as necessary, also set out in section 5 of the report;
- 5) To set aside in an earmarked reserve against delivery risk the transitional grant to be received in 2016/17 and 2017/18 as set out in paragraph 2.15
- 6) The Revised Estimate 2015/16 as set out in Appendix C, for recommendation to Council;
- 7) The Estimate 2016/17 as set out in Appendix C;
- 8) To recommend to Council adoption of a minimum balance of £2,000,000 as set out in
- 9) That working balances should be set at £300,000 above minimum balances approved by Council, which would currently be £2,300,000;
- 10) The capital programme set out in Appendix D for recommendation to Council;

- 11) To consider options for the level of council tax and agree a £5.00 increase in 2016/17 for recommendation to Council;
- 12) The medium term financial strategy statements for revenue and capital as set out in Appendices F and G;
- 13) To recommend to Council the appropriate matters for decision to set a balanced budget for 2016/17 and the necessary level of council tax in accordance with the Local Government Finance Act 1992, the Localism Act 2011 including the decisions made above.

**This report relates to the following corporate priorities:**

The medium term financial strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.

The Capital Programme identifies key projects requiring long term funding to improve assets and regenerate the borough. These can be to meet any of the key priorities.

**Timetable**

| <b><i>Meeting</i></b>        | <b><i>Date</i></b>             |
|------------------------------|--------------------------------|
| Policy & Resources Committee | 17 <sup>th</sup> February 2016 |
| Council                      | 2 <sup>nd</sup> March 2016     |

# **MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS**

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report brings together the revenue and capital budgets for 2016/17 with a view to recommending a balanced budget to Council on the 2<sup>nd</sup> March 2016 including a proposed level of council tax.
  - 1.2 The budget outlined in this report incorporates the growth and savings agreed by this Committee at its meetings on 16<sup>th</sup> December 2015 and 27<sup>th</sup> January 2016. The report also identifies issues emerging since that time.
  - 1.3 The report provides some additional information on the financial position beyond 2016/17 to assist the Committee with decision making and agreeing a medium term financial strategy.
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## **2. INTRODUCTION AND BACKGROUND**

### **INTRODUCTION**

- 2.1 On three previous occasions the Committee has considered the developing medium term financial strategy for 2016/17 onwards. In July 2015 a strategic revenue projection and a council tax level was set for the purposes of planning and consultation with the public and other service committees. In December 2015 the Committee considered the work on growth and savings proposals from service committees. In January 2016 the Committee considered the impact of the provisional local government finance settlement and necessary further savings proposals. A second report was also considered in January specifically on the capital programme.
- 2.2 In addition the Committee has considered two quarterly budget monitoring reports for the current financial year. These reports have reviewed revenue, capital and other balance sheet items and reported on any major variances or other issues. The reports identified areas where income is above budget and where expenditure levels are above budget. The Committee has made decisions in relation to those reports and resources have been reallocated to areas of budget pressure in line with those decisions.
- 2.3 Consideration of the third quarter's budget is reported elsewhere on this agenda.

### **CURRENT YEAR 2015/16**

- 2.4 The third quarterly budget monitoring report, elsewhere on this agenda, identifies a growing level of employee underspend after an allowance is made for temporary staff and consultants. In addition income from both parking and planning are above target.

- 2.5 One major area where expenditure is in excess of budget, Housing Temporary Accommodation, has been reported for the last four years and supportive actions have been taken each year. To date a complete resolution to the continually growing problem has not been identified. This year additional resources of £160,000 have been added to the budget and a series of initiatives to support alternative rental options have been put into operation. Further proposals are included in the 2016/17 budget detailed in this report.
- 2.6 Other areas of variance have occurred and will be considered by service committees in this cycle of meetings.
- 2.7 The expected outturn at 31<sup>st</sup> March 2016 is predicted to be a minor positive variance. While this is a reassuring situation, the Committee should note that the variance is significantly lower than in previous years. This is indicative of a tighter budget provision for all service areas as government policy continues to reduce resources.

### **THE STRATEGIC PLAN AND OTHER STRATEGIES**

- 2.8 During this year work has been completed on a refresh of the strategic plan 2015 - 2020. The refresh is reported elsewhere on this agenda. Alongside this work the medium term financial strategy for 2016/17 to 2020/21 has been developed to maintain the links between the resources available and the priorities of the council.
- 2.9 The medium term financial strategy also incorporates consideration of other strategies and plans such as the following:
- a) The workforce strategy and pay policy – provision is included in the budget for expected growth and savings in employee costs.
  - b) The asset management strategy – provision has been made from both capital and revenue resources for the repair and maintenance of assets. In addition there are resources within the capital programme for the acquisition of further commercial property.
  - c) The ICT strategy – ICT is provided to the council by a shared service in partnership with Swale and Tunbridge Wells Borough Councils. The ICT strategy is therefore a three way strategy. The medium term financial strategy incorporates contributions to improvements that enhance the partnership and resources for the needs of this council.
  - d) The Local Plan, (especially the links to the infrastructure delivery plan) – delivery of sustainable growth requires resources to improve all forms of infrastructure.
  - e) Risk register – the funding needs of actions plans developed for mitigation of identified risks are, where appropriate, incorporated into the budget strategy.

- f) Treasury Management – the 2016/17 strategy has been recommended by Audit, Standards and Governance Committee to Council. The strategy incorporates the previously agreed plans of this Committee to utilise prudential borrowing where appropriate and where the medium term financial strategy allows.
- g) Commercialisation Strategy – the financial plan set out in the commercialisation strategy is reflected in the medium term financial strategy in terms of both revenue benefits and capital implementation costs for known schemes.
- h) Housing Strategy & Homeless Strategy – in recognition of the pressure on the temporary accommodation budget the Committee has incorporated further permanent resources in the service budget from 2016/17. The Communities Housing and Environment Committee are currently developing a new Housing Strategy which will identify future actions and direct resources appropriately.

## **THE STRATEGIC REVENUE PROJECTION**

- 2.10 The Committee considered and agreed a strategic revenue projection at its meeting in July 2015 and has considered updates at its meetings in December 2015 and January 2016.
- 2.11 Set out below is the latest information about the key elements of the updated projection. The strategic revenue projection itself is given at **Appendix A**.

## **THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17**

- 2.12 The provisional local government finance settlement was announced on 17 December 2015, the day after the Committee considered a report on the draft budget for 2016/17. As the settlement had a significant adverse impact on the proposals agreed by this Committee in December 2015 the further report considered in January 2016 recommended actions to resolve the immediate impact of the provisional settlement.
- 2.13 The Department for Communities and Local Government allowed a period of consultation on the provisional settlement until 15 January 2016. In February each year the final settlement figures are then announced. Late on the evening of 8<sup>th</sup> February 2016 the government announced the final settlement figures.
- 2.14 The final settlement for Maidstone is a change from the provisional settlement and will delay, but not reverse, the impact of the proposed reduction in business rates. The Committee should note that the final settlement will not change the eventual level of savings required. The strategic revenue projection at Appendix A reports the final figures announced on 8<sup>th</sup> February 2016.
- 2.15 In addition the government has responded to local authority requests for a transitional period. The final figures include an additional one-off grant over two years of £221,641 in year one and £171,971 in year two. A total

of £393,612. While this is welcomed it is only a short term stay of the budget pressure and the same level of savings will be required by the end of the medium term financial strategy period. For this reason it is recommended that this resource be held in an earmarked reserve to mitigate the risks to delivery of the higher risk savings proposals already agreed. The resource will provide time to resolve delivery issues for savings in 2016/17 and 2017/18.

- 2.16 Along with the consultation, the provisional settlement made an offer of a four year settlement which is subject to each authority's acceptance. Details of the process and conditions attached to acceptance are not clear at this time but the government has confirmed that the Council will be able to accept the offer any time before October 2016.

### **PARISH FUNDING**

- 2.17 At its meeting on 16<sup>th</sup> December 2015 the Committee considered the amount and distribution of the local council tax support grant that the Council has agreed to pass on to parish councils. The grant is distributed to parishes proportionate to the level of council tax lost due to council tax support discount being granted.
- 2.18 The calculation as agreed at that meeting was passed to individual parish councils so that the information could aid their decisions on potential precepts.
- 2.19 The calculation of the overall amount of grant to distribute is based upon the change in the Council's resources from the finance settlement each year. When Committee considered the distribution of the grant at its December meeting the assumed settlement figures were the only projection available. The grant was reduced by 14.26% to a total sum of £70,327. If the calculation is repeated using the final settlement figures the result is a 26.3% reduction which would be a total sum of £60,451.
- 2.20 The parish funding for local council tax support was expected to cease in 2020 when the Council's strategy assumed no further receipts of revenue support grant. As this will now occur in 2017/18 the parish funding would cease after next year.
- 2.21 At this time the parish councils have used the figures approved by this Committee in December 2015 to calculate their precept requirements for 2016/17 and it is not recommended that the allocations be amended for next year. It is recommended that the payment to parish councils ceases from 1<sup>st</sup> April 2017. A decision at this time can be notified to parish council to enable them to prepare in advance of the reduction in resources.

### **BUSINESS RATES POOL AND NNDR1 ESTIMATE**

- 2.22 The business rates estimate for 2016/17 is based on the recently calculated NNDR1 return provided to the Department for Communities & Local Government on 29<sup>th</sup> January 2016. The return predicts growth above the baseline business rates level set out in the finance settlement. The table below sets out the distribution of the business rates calculated for

the NNDR1 return and compares this to the assumed values from the government's finance settlement announced on 17<sup>th</sup> December 2015 which, for 2016/17, matches the final settlement figures.

2.23 The significant differences in the table occur due to four factors:

- a) The finance settlement figures are the product of inflationary increases in the original baseline figures set at the commencement of the system on 1 April 2013. The figures do not reflect growth or changes in exemptions and allowances.
- b) There are a number of allowances that have been introduced by central government such as retail relief and the extension of the 100% small business rates relief and the effect of these were unknown in 2013/14 and were built into the system at a value that allowed a high level of take up which has not materialised yet.
- c) In the initial year of the system, 2013/14, the Council was required to set aside a significant provision against the cost of backdated and current appeals by businesses against their rateable value assessments. This provision will requires an annual adjustment each year.
- d) A small amount of real growth in the rateable businesses premises in the borough.

2.24 The table below shows that the Council technically retains 40% of the income collected but there is a tariff payable to central government. The tariff is set as part of the finance settlement in each year and the Council must pay a tariff of £19,653,700 from its share in 2016/17. The balance equates to the business rates baseline given in the finance settlement and any growth attributable to the Council.

| <b>Authority &amp; Share</b>     | <b>Provisional Settlement Figures</b> | <b>NNDR1 Return Figures</b> | <b>Shares Of Estimated Growth</b> |
|----------------------------------|---------------------------------------|-----------------------------|-----------------------------------|
| Business Rates Collectable       | 56,367,600                            | 60,146,945                  | 3,779,345                         |
| Central Government – 50%         | 28,183,800                            | 30,073,473                  | 1,889,673                         |
| Kent County Council – 9%         | 5,073,084                             | 5,413,225                   | 340,141                           |
| Kent & Medway Fire & Rescue – 1% | 563,676                               | 601,469                     | 37,793                            |
| Maidstone Borough Council – 40%  | 22,547,040                            | 24,058,778                  | 1,511,738                         |
| Government Tariff on Maidstone   | 19,653,700                            | 19,653,700                  | 0                                 |
| Maidstone Baseline Need          | 2,983,340                             | 2,983,340                   | 0                                 |
| Levy on Growth 9.3%              |                                       |                             | 140,591                           |
| Maidstone Estimated Growth       | 0                                     | 1,511,738                   | <b>1,371,147</b>                  |

2.25 In normal circumstances this growth would be subject to a 50% levy which is payable to central government to support the payment of safety net grant to local authorities who saw business rates decline in their area. Due to the fact that the Council is a member of the Kent Business Rates Pool the levy will not be due in full. The levy on members of the pool is 9.3% rather than 50%. The shares of the growth that are retained locally are set out in the table below:

| <b>Action or Beneficiary</b>       | <b>Formula</b>    | <b>Amount £</b>  |
|------------------------------------|-------------------|------------------|
| MBC Retains first 50%              | £1,511,738 * 50%  | 755,869          |
| Central Government receive Levy    | £1,511,738 * 9.3% | 140,591          |
| The Balance is shared within Pool: |                   | 0                |
| Retained by Maidstone              | £615,278 * 30%    | 184,583          |
| Growth Fund contribution           | £615,278 * 30%    | 184,583          |
| Passed to Kent County Council      | £615,278 * 30%    | 184,583          |
| Held as provision against losses   | £615,278 * 10%    | 61,529           |
|                                    |                   | <b>1,511,738</b> |

2.26 The sum retained by the Council is estimated to be £940,452. The Committee has already considered the use of the growth identified in this estimate and agreed that it should be utilised in two ways. The initial 50% share retained by the Council should be drawn into the budget strategy as a saving (£600,000). The funding retained from the pool must be utilised in accordance with the memorandum of understanding which suggests two purposes:

- To enhance financial resilience for each of the pool members; and
- To promote further economic growth within the district based pool area.

2.27 Committee have previously considered options to utilise the resources to achieve the second purpose by supporting the actions required in the economic development strategy.

2.28 The current monitoring of the business rates system for the Kent Business Rates Pool is considering the consequences of a developing appeal across the Country where some NHS Foundation Trusts have made a claim for charitable exemption from business rates. For this Council the annual impact is likely to be approximately £100,000. For some other members of the Kent Business Rates Pool, where major hospitals are NHS Foundation Trust properties, the impact is in excess of £3 million each. Three such authorities exist in Kent.

2.29 The strategic revenue projection at Appendix A includes the revised business rates growth figure from the NNDR1 return. At this time it is proposed that the previous decision to delay the use of the additional business rates until the following year be continued in order to mitigate the risk of in year changes.

### **FEES & CHARGES**

2.30 At each service committee meeting in January 2016 the level of fees and charges made by each committee's service areas was considered and set for 2016/17.

2.31 The combined considerations of all fees and charges have increased the income budget by £173,000 and this has been incorporated into the budget plans set out in this report.

- 2.32 In addition to this specific income proposals have been set out in the savings proposals arising from increased demand or new commercial services. These add a further £238,000 to the level of income.
- 2.33 In considering future years of the strategy an assumption of approximately a 1% increase in fees and charges income has been incorporated into the strategic revenue projection for the period 2017/18 to 2020/21.

### **COUNCIL TAX LEVELS**

- 2.34 The methodology for the calculation of the local government finance settlement assumes a number of factors relating to council tax that are different to previous years:
- a) There will be no offer of council tax freeze grant available to local authorities;
  - b) The methodology assumes that local authorities will increase their council tax charge by an average of 1.75% (excluding the additional increase permitted for authorities responsible for adult social care); and
  - c) The methodology assumes that the tax base will increase nationally by almost 8% over the four year period to 2019/20. The Council's past record would suggest an increase nearer to 5%.
- 2.35 As reported in paragraph 2.14 the final local government settlement amended the pace of reduction in business rates that the provisional settlement had suggested for Maidstone. In addition the final settlement has changed the methodology for council tax increases. The referendum rules have been amended to allow a council tax increase of £5.00 per annum or "less than" 2%, whichever is greater. This amendment means that it is possible for the Council to consider an increase greater than the 1.99% used in the financial planning work completed during the year.
- 2.36 The additional income that a 1.99% increase generates for Maidstone Borough Council is £273,890. The additional income for Maidstone using the Government's methodology is £361,330. If the Council is to maintain resources at an adequate level to deliver services while responding to the effects of a further five years of controls on public sector expenditure it will be essential to maximise achievable increases in council tax compared to the results of the government's model.
- 2.37 A £5.00 increase in the council tax charge would generate £292,630. This is an additional £18,740. As set out in paragraph 2.45 below the Council has not yet balanced the medium term need for savings and allowing for an increase of £5.00 per annum savings of £3.5 million are still required.
- 2.38 The recommendation of this report is to propose a £5.00 increase to Council in order to maintain the resources close to the assumed level used by the government's core spending power assessment. This will ensure the Council is able to deliver on its priorities and maintain financial stability.

2.39 To aid the Committee's decision making:

- a) For each 1% increase in the charge for this Council's element of the council tax, the income generated in 2016/17 is approximately £137,600.
- b) At the current Band D council tax charge, a 1.99% increase in council tax equates to an annual increase of £4.68. This is a monthly increase of 39 pence.
- c) A £5.00 increase in council tax charge equates to 42 pence per month and would be a 2.1% increase.
- d) Indications are that the major preceptors increase, at the current Band D council tax charge, will be:
  - Kent County Council: 3.99%, an annual increase of £43.50 (including 2% adult social care precept);
  - Kent Police: £5.00 maximum annual increase allowable to low precept police forces (equal to a 3.4% increase); and
  - Kent & Medway Fire & Rescue Authority: 1.99%, an annual increase of £1.40.
- e) The total increase if all these precept increases are agreed the band D council tax charge would move from £1,543.50 for 2015/16 to £1,598.40 an increase of £54.90 or £4.58 per month.
- f) In rural areas tax payers may be required to pay a charge to cover a parish precept. At this time a full list of precepts or intended movements in the charge are not available.
- g) Under the Council's currently agreed council tax reduction scheme, tax payers who are assessed as in need can receive a discount of up to 87% of the charge. This is dependent on circumstances and is provided through a scheme agreed by Council in December 2015.

2.40 The strategic revenue projection at Appendix A assumes a £5.00 increase in the council tax charge for 2016/17 with future years increasing by the currently planned 1.99%. In addition, future years of the strategic revenue projection have been adjusted to allow for an annual increase of 1% in tax base figures.

## **GROWTH PLANS**

2.41 Specific changes to growth proposals have all been considered and are as set out in the strategic revenue projection attached at Appendix A. Two agreed amendments have been made to the growth proposals in the strategic revenue projection. To more accurately reflect the increase is Employer's National Insurance costs amendments and potential changes to the pay scale. The Employment Committee is due to consider a report on amendments to the current pay scale. The resulting decision may have an effect on the amended employee cost growth that is currently set out in the strategic revenue projection at Appendix A.

- 2.42 An update on the decision of the Employment Committee and any resulting change in estimated employee costs will be reported to the Committee in an oral report during the discussion of this report.

### **SAVINGS PROPOSALS**

- 2.43 Based upon the considerations set out in this section the Council will need to identify £6,520,000 over the period of the medium term financial strategy. In 2016/17 the requirement for savings is £2,178,000.
- 2.44 The future need has reduced since previous consideration by his Committee due to the incorporation of the changes to fees and charges, the council tax charge and the tax base increases into the strategic revenue projection. In addition the change to the business rates tariff has been incorporate, although this only delays the date that government reductions are made.
- 2.45 Set out in **Appendix B** is a list of savings previously agreed by service committees and confirmed by this Committee. The savings total the required £2,178,000. The proposals therefore produce a balanced budget. The proposals have all been considered by the Committee previously but this report brings together all previous considerations into a balanced budget for recommendation to Council.
- 2.46 For future years, 2017/18 to 2020/21, the Committee had already agreed savings of £812,000. The medium term financial strategy requires an additional £3,530,000 in savings and efficiencies over this value. These savings remain to be achieved to ensure plans exist for the continued future financial resilience of the Council.

### **REVENUE ESTIMATES**

- 2.47 Attached at **Appendix C** is a summary of the revenue budget for 2016/17. The summary shows the Original Estimate 2015/16 as approved by Council in March 2015; the Revised Estimate 2015/16 calculated as part of the budget development work completed this year; and the Estimate for 2016/17 based upon the details set out in this report.
- 2.48 Appendix C presents the Committee with the budget structured in line with the relevant services committees and separately structured in line with the strategic priorities set out in the Strategic.

#### **Revised Estimate 2015/16**

- 2.49 The revised estimate 2015/16 shown in Appendix C totals £16,205,460. This figure is net of all income with the exception of the use of balances, the finance settlement and the council tax requirement. This figure, compared to the original estimate approved by Council in February 2015 shows an increase of £1,477,750. The main variances are the value of the carry forward budgets approved by Cabinet in April 2015 and the use of balances to resource the costs of the Local Plan.

#### **Original Estimate 2016/17**

- 2.50 The estimate 2016/17 shown in Appendix C totals £13,753,490. This incorporates an allowance for slippage. The figure is net of all income with the exception of the use of balances, the finance settlement and the council tax requirement. This figure excludes the value of all precepts but includes the government grant passed on to parishes to compensate for the local council tax support scheme.

### **CAPITAL ESTIMATES**

- 2.51 The Capital Programme was reported to Committee in January 2016 following consideration by service committees earlier in January 2016. The programme covers the same period as the strategic revenue projection, 2016/17 to 2020/21.
- 2.52 Since the programme was considered by Committee a small number of minor amendments to the programme have been made. A revised programme and revised funding is set out in **Appendix D**. The revisions are all as a result of the changes required by the third quarter budget monitoring report set out elsewhere on this agenda.

### **Funding – New Homes Bonus**

- 2.53 The Council has previously made the decision that New Homes Bonus should not be used as a temporary resource to provide a balanced revenue budget. With the exception of Local Plan development and some small value revenue projects that were one-off in nature, resources gained from New Homes Bonus have been reserved for support to the capital programme. The Council's intention is to ensure that resources are available from New Homes Bonus and future Community Infrastructure Levy contributions to support the needs of the Infrastructure Delivery Plan.
- 2.54 For the financial year 2016/17 the Council will receive a grant of £5,098,410 which is an increase of £792,125 over the 2015/16 payment. This represents payment for new homes in the period October 2014 to October 2015.
- 2.55 The Government has commenced a consultation on the future of New Homes Bonus and an analysis of this consultation and a proposed response from this Council is set out in a separate report on this agenda.
- 2.56 At this time it would be prudent to assume that funding will reduce by a method similar to the proposal in the consultation document. The figures set out in the section of the report on the capital programme assume an annual reduction in the calculated value of New Homes Bonus each year from 2017/18 in line with the consultation proposals.

### **Funding – Other Capital Resources**

- 2.57 Other resources available to the council are:
- 1) Disabled Facilities grant of up to £450,000 per annum;

- 2) Capital contributions of £2 million to support regeneration of the Maidstone East Railway Station;
- 3) Prudential borrowing in line with the funding need of other proposed regeneration schemes.

2.58 In addition the Council expects to obtain resources for infrastructure from developer contribution. This will be in support of the projects required by the Local Plan and set out in the Infrastructure Delivery Plan that is under development and a supporting document for the current Local Plan consultation. These resources and projects are not set out in the Capital Programme at this time.

### **The Programme**

2.59 The programme was considered by the Committee at its meeting on 27<sup>th</sup> January 2016 and has only received minor modification to bring it into line with the proposed funding and slippage set out in the third quarter's budget monitoring report elsewhere on this agenda.

### **BALANCES/EARMARKED RESERVES**

2.60 Attached at **Appendix E** is a statement of general fund balances and details of the earmarked reserves.

2.61 The earmarked reserves incorporate a capital reserve that includes all of the retained New Homes Bonus and other revenue support to the capital programme available from previous years.

2.62 The estimated level of resources available from business rates growth is identified. By a previous decision of Council the balance in this reserve is to create a smoothing of annual fluctuations in business rates income. The in year receipt will be held for use in the following year based on the principles set out in the memorandum of understanding to the Kent Business Rates Pool.

2.63 While funding from these earmarked reserves will be required in 2016/17, at this time only one scheme to utilise general fund balances exists for 2016/17. As part of a three year approval to support increases in pension backfunding the Council has previously agreed to contribute £50,000 per annum from balances for the three years of the current fund valuation and 2016/17 will be the final year of the current arrangement.

2.64 General fund balances are estimated to be £4,102,000 by 31 March 2016. In considering the level of reserves that should be maintained Committee should make two decisions:

- a. The first is an absolute minimum below which the Committee cannot approve the use of balances without agreement by the Council. Since 2009 this has been held stable at £2,000,000 despite the net revenue expenditure level decreasing from £22,295,330 to £17,798,000. It is recommended that Committee propose to Council that the minimum level of balances be maintained at £2,000,000.

- b. The second is an operational minimum set for daily use of balances by the Policy & Resources Committee. In the past this has been set £300,000 above the Council set minimum. This would be £2,300,000 and it is recommended that Committee approve the principle that the minimum level of balances for daily use should be £300,000 above the Council set minimum.

## **MEDIUM TERM FINANCIAL STRATEGY**

- 2.65 The Council publishes two separate statements of its financial strategy. One for revenue and one for capital.
- 2.66 Attached as **Appendix F** is the Revenue Medium Term Financial Strategy Statement 2016/17 Onwards and at **Appendix G** is the Capital Medium Term Financial Strategy Statement 2016/17 Onwards. The statements are focused on the five year period of the Council's planning cycle. In some local authorities plans of ten years and plans of three years are often seen. It is considered that a three year plan is too short to meet the requirements of the Council's strategic planning environment and that ten years is too long for a reasonable level of assessment about the future to be made.
- 2.67 The financial projection that complements the Revenue Medium Term Financial Strategy Statement is the strategic revenue projection given at Appendix A. The financial projection considers the targeted need for growth and savings over the period of the Revenue Medium Term Financial Strategy Statement and incorporates a number of assumptions about inflation and changes in local and national initiatives.
- 2.68 The financial projection that compliments the Capital Medium Term Financial Strategy Statement is the capital programme given at Appendix D
- 2.69 Both strategies may require amendment following Committee's consideration of this report or following consideration by Council on 2<sup>nd</sup> March 2016. The final versions will be published as part of the budget documents on the Council's website following the Council meeting.

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## **3. AVAILABLE OPTIONS**

- 3.1 **Option 1:** To not recommend a budget or recommend a budget that is not balanced to Council.
- 3.2 The Council is statutorily required to set a balanced budget in time for the new financial year and in time for council tax billing to be achieved. If the Committee were to decide not to recommend a budget or recommend a budget that was not balanced Council would not be able to accpt the proposal. A budget would need to be set and this would happen without the information or guidance from this Committee's work over the past year.

- 3.3 **Option 2:** The Committee could amend the budget set out in this report but would need to take care that the final recommendation to Council is a balanced budget.
- 3.4 The Chief Finance Officer (s151 Officer) must provide confirmation to Council that “the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise”. Care must be taken in amending the budget set out in this report so that the Chief Finance Officer is able to make the necessary confirmation.
- 3.5 **Option 3:** the Committee recommend the budget set out in this report, including the proposed council tax charge.

#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Option 3 is the recommended option.
- 4.2 A significant amount of work has been completed by all four service committees and officers. The resulting budget plans set out in this report are deliverable; create a balanced budget; achieve this within the requirements of legislation and other government controls. In addition the budget proposed will enable the Council to achieve the priorities set out in the strategic plan update reported elsewhere on this agenda.

#### **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

##### **CONSULTATION WITH THE PUBLIC**

- 5.1 This year the consultation with the public was carried out as part of the Residents survey. A series of questions on value for money, satisfaction with the Council and the impact of previous savings and efficiencies.
- 5.2 The survey was completed by three methods and 2008 responses were received. Both the number of responses and an analysis of respondents suggest that the information obtained is statistically significant and can be seen as a reasonable representation of residents’ views.
- 5.3 The key feedback from the survey, in relation to the medium term financial strategy are given below:
- 1) 52% of respondents believe that the Council provides value for money;
  - 2) 61% of respondents felt that previous savings and efficiencies had no or very little impact on their daily lives;
  - 3) When asked how respondents would like the Council to protect services in the future the responses were:

|   |     |
|---|-----|
| Increase Council tax by more than 2%                              | 17% |
| Introduce or increase charges for service that can be charged for | 37% |
| Reduce the level of some services provided                        | 26% |

|  |     |
|--|-----|
| Stop providing some services                     | 17% |
| Be more efficient in the way we provide services | 18% |
| Other  | 20% |

### **CONSULTATION WITH SERVICE COMMITTEES**

- 5.4 The service committees were involved in the development of the medium term financial strategy and the budget for 2016/17 through regular reports. Savings, growth and all information has been considered and agreed by the committees at each stage of the process.

### **CONSULTATION WITH AUDIT COMMITTEE**

- 5.5 It is normally the case that the Audit, Standards and Governance Committee would consider the medium term financial strategy at its meeting each January. The committee's remit is with reference to risk management and it would consider the operational risk assessment of the budget that is produced by the finance team as part of their service planning work each year.
- 5.6 This year, due to the late and significant change in the strategy brought about by the local government finance settlement, the operational risk assessment was not complete in time for the Audit Standards and Governance Committee to consider it. It has been agreed that the risk assessment will be reported to the March meeting of that Committee so that members of the Committee can take a view on the completeness of the assessment and the soundness of the proposed mitigations.
- 5.7 Members should note that the intention of the risk management statement provided to Audit Standards & Governance Committee is to ensure that a suitable level of mitigation exists for such risks and that actions will be taken to monitor and react to signs of such events occurring.

### **CONSULTATION WITH OTHER COMMITTEES**

- 5.8 The Employment Committee is currently considering the impact of the current pay policy on future employee costs and the decision will be reported verbally to the Committee during consideration of this report.
- 5.9 The Democracy Committee recently considered a review of the Mayoralty and Mayor making day. In their consideration the following decision was made: "That the Democracy Committee support, produce a case for and recommend to the Policy and Resources Committee that an additional £2,000 be added to the current budget for the Mayor Making civic event in order to develop the day into a larger event involving all communities of Maidstone."
- 5.10 Should the Committee be minded to support the Democracy Committee's request it should be mindful of the fact that the service forms part of this committee's responsibilities. If the Committee identifies the area where the reduction in resources should occur to fund the £2,000 increase in the mayoralty budget, an adjustment can be completed prior to the production of the full recommendation to Council.

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## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

### **FUTURE ACTIONS (COUNCIL MEETING)**

- 6.1 As Members will be aware, it is a statutory requirement of this Authority to resolve the level of Council Tax for the area. To achieve this objective the recommendations detailed in this report need to be addressed. In addition the precepts of Kent County Council, the Police Authority, the Fire Authority and all parish councils are required. These will all be incorporated into a resolution to the Council meeting on 2<sup>nd</sup> March 2016.
- 6.2 It is the intention of officers to collate the decisions from this meeting and incorporate them into the necessary resolutions required by the Localism Act 2011 in order to achieve the above in time for the Council meeting.
- 6.3 In addition it is necessary for the s151 Chief Financial Officer to give his opinion to Council, when setting the above requirements, that the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise. Based upon the process undertaken this year and subject to the recommendation made by this Committee it is not anticipated that this opinion will include any adverse comments.

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## **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

| <b>Issue</b>                          | <b>Implications</b>  | <b>Sign-off</b>             |
|---------------------------------------|--|-----------------------------|
| <b>Impact on Corporate Priorities</b> | The capital and revenue budget developed from this strategy provide resources for the achievement of the Council's priorities. The MTFS has been developed in conjunction with the strategic plan and the budget summary set out at Appendix C is reported by committee and by strategic priority. | Head of Finance & Resources |
| <b>Risk Management</b>                | The development of the medium term financial strategy and the budget for 2016/17 supports the mitigation of the strategic risk of not having the resources available to achieve the Council's priorities. The robust process followed, along with the  | Head of Finance & Resources |

|                  |  |                             |
|------------------|--|-----------------------------|
|                  | <p>Council’s policy to deliver a balanced budget ensure that expenditure estimates appropriately support the delivery of council services.</p> <p>The policy on balances helps to mitigate the risk of budget pressures arising from unbudgeted costs from the financial consequences of unforeseen emergencies.</p> <p>The key risks at an operational level are identified as part of the process of developing the annual budget. These will now be reported to the Audit Standards and Governance Committee in March 2016.</p>   |                             |
| <b>Financial</b> | <p>The MTFS impacts upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.</p> <p>The prudential borrowing proposed in this report is governed by the Prudential Code for Capital Finance in Local Authorities and is governed by a number of principles that are set out in the Council’s published medium term financial strategy.</p> <p>The council tax charge proposed in this report includes an increase that is below the threshold that would otherwise require the Council to hold a referendum.</p> | Head of Finance & Resources |
| <b>Staffing</b>  | <p>The current budget provides the resources necessary to fund the proposed staffing levels and the proposed pay strategy. These factors are subject to a future decision of the Employment</p>  | Head of Finance & Resources |

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|--|---|-----------------------------|
|  | Committee.  |                             |
| <b>Legal</b>                                 | The report and the recommendations it proposes will enable the Council to set a balanced budget and a council tax charge within the time limits and constraints of legislation. The most recent legislation specifying the decisions required and the responsibilities for making those decisions is the Localism Act 2011 and the recommendations that Committee make to Council will be set out in the Council report as required by the legislation. | Head of Finance & Resources |
| <b>Equality Impact Needs Assessment</b>      | The objective of the MTFS is to match available resources to the priorities set out in the Strategic Plan. Delivery of those priorities should enable delivery in line with the impact assessment of the strategic plan.  | Head of Finance & Resources |
| <b>Environmental/Sustainable Development</b> | None identified   | Head of Finance & Resources |
| <b>Community Safety</b>                      | None identified   | Head of Finance & Resources |
| <b>Human Rights Act</b>                      | None identified   | Head of Finance & Resources |
| <b>Procurement</b>                           | None identified   | Head of Finance & Resources |
| <b>Asset Management</b>                      | Resources for management and maintenance of the Committee's assets are included within the proposed programme.  | Head of Finance & Resources |

## 8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Strategic Revenue Projection 2016/17 to 2020/21
  - Appendix B: Budget strategy savings proposals 2016/17
  - Appendix C: Summary Budget 2016/17
  - Appendix D: Capital programme 2016/17 to 2020/21
  - Appendix E: Statement of General Fund Balances and Earmarked Reserves
  - Appendix F: Draft Medium Term Financial Strategy Statement – Revenue 2016/17
  - Appendix G: Draft Medium Term Financial Strategy Statement – Capital 2016/17
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## **9. BACKGROUND PAPERS**

None