

Heritage, Culture & Leisure Committee

31 January 2017

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

No

Medium Term Financial Strategy and Budget Proposals 2017/18

Final Decision-Maker	Council
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

It is recommended that the Committee:

1. Agrees the budget proposals for services within the remit of this Committee as set out in Appendices B and D for submission to Policy and Resources Committee.

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. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.

Timetable

Meeting	Date
Heritage, Culture and Leisure Committee	31 January 2017
Policy and Resources Committee	15 February 2017
Council	1 March 2017

Medium Term Financial Strategy and Budget Proposals 2017/18

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report forms part of the annual process of updating the Medium Term Financial Strategy and setting a budget for the coming financial year. It sets out details of revenue budget proposals for this committee for the year 2017/18 and the remainder of the five year medium term strategy planning period.
- 1.2 Relevant details from the Chancellor's Autumn Statement and the Local Government Finance Settlement 2017/18 are reported below. Local government funding is now based on a four year settlement covering the years 2016/17 to 2019/20, details of which have now been confirmed for 2017/18. The relevant information relating to Maidstone is incorporated in this report. Any further announcements relating to local government funding will be reported to Members at the earliest opportunity.

2. INTRODUCTION AND BACKGROUND

Background

- 2.1 At its meeting on 21 September 2016, Council agreed a Medium Term Financial Strategy (MTFS) and Efficiency Plan for the next five years. This sought to deliver the Council's corporate objectives and key priorities within the relevant financial parameters:
- The government's four year funding settlement to local authorities
 - Assumptions about the economic context, capacity to generate income, and service pressures.
- 2.2 The MTFS identified a budget gap by the end of the five year period of £4.2 million. Accordingly, it set out a strategy for addressing this. Given the size of the budget gap, it was recognised that no single initiative could be expected to close it. A broader, cross-cutting approach was necessary.
- 2.3 Budget proposals were put forward, based on a blend of different approaches. These ideas have now been further developed and are set out in appendix B. The following table sets out the generic approaches taken and the amounts contributed by each for this committee.

Table 1: Budget proposals by category

	£000
Efficiency savings	95
Increased income	299
Transformation and business improvements	135
Service reductions	103
Total	632

- 2.4 These proposals help to allow the budget gap to be closed in the short term. However, across the Council, budget savings proposals do not deliver the entire amount required. It was therefore recognised when developing the MTFs that choices would need to be made about the areas of focus when seeking further savings. This was expressed in the form of a choice between services:

MUST - essential to the Council

SHOULD - important and its absence would weaken the Council

COULD - useful but the Council is still viable without it

WON'T - not essential and can wait for now

It was also recognised that the standard of service, both current and desired, would have a bearing on costs. The desired standard of service could be categorised as gold, silver or bronze.

This approach was used to inform a budget consultation, the results of which are set out below. Residents were asked to rank services in order of importance, and to say whether they wanted the same amount of money spent on them, less money, or none at all.

Chancellor's Autumn Statement

- 2.5 Following the formation of a new government in the summer of 2016, details about its economic policy remained unclear at the time that Council considered the MTFs. The MTFs described the economic outlook as highly uncertain, making it vital that financial plans be developed that were robust and capable of withstanding shocks.
- 2.6 The Chancellor's Autumn Statement has now provided more information about the government's position. Faced with lower than expected tax receipts and more pessimistic projections about economic growth from the Office of Budget Responsibility, the Chancellor has moved away from his predecessor's commitment to achieve a balanced budget by 2020. Public debt is now expected to continue rising, peaking at 90% in 2017/18, before starting to fall.
- 2.7 Existing spending plans continue broadly the same as previously. The government says it remains committed to the departmental spending plans set out in Spending Review 2015. It has reaffirmed its commitment to identify a further £3.5 billion of savings from public spending in 2019/20 following an Efficiency Review. This equates to around 1% of departmental spending, but given that budgets for health, education, defence and overseas aid will continue to be protected, this places a large burden on remaining budgets. The Efficiency Review will report on progress in autumn 2017.
- 2.8 The Chancellor placed a high emphasis on plans for investing in infrastructure. A number of initiatives were grouped together under the banner of a £23 billion National Productivity Infrastructure Fund.

- 2.9 Of particular interest, given the Council's housing responsibilities, were the announcements about investment in housing. 100,000 new homes in high demand areas are to be funded by £2.3bn housing infrastructure funding. This funding will be allocated to local government on a competitive basis. The funding amounts to £23,000 per home and the government says it will unlock new private house building in the areas where housing need is greatest. A forthcoming White Paper will set out the details. £1.4bn of funding was also announced for new affordable homes to deliver an additional 40,000 housing starts.
- 2.10 The government will award £1.8 billion to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556 million pounds of this will go to the north of England, £392 million to the Midlands, £151 million to the East of England, £492 million to London and the South East, and £191 million to the South West. This equates to £27.90 per head of population for London and the South East compared with £37.60 per head for the Midlands, which is the most generously funded region on the basis of population.
- 2.11 The Government will consult on lending local authorities up to £1 billion at a new local infrastructure rate of gilts plus 60 basis points for three years to support infrastructure projects that are high value for money. This represents an interest rate saving of 20 basis points (0.2 per cent) on the rate typically paid currently by local authorities when borrowing from the Public Works Loan Board.
- 2.12 The Chancellor announced investment of £170 million in flood defence and resilience measures. £20 million of this investment will be for new flood defence schemes, £50 million for rail resilience projects and £100 million to improve the resilience of roads to flooding. To put these sums into context, it is estimated that the proposed new Leigh flood barrier in Kent will cost £25 million alone.
- 2.13 The Chancellor announced that the government remains committed to devolving powers to support local areas and that it will continue to work towards a second devolution deal with the West Midlands Combined Authority and will begin talks on future transport funding with Greater Manchester. It will give mayoral combined authorities powers to borrow for their new functions, which is intended to allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury.
- 2.14 The government's commitment to existing spending plans echoes the commitment to a four year funding settlement to local authorities, covering the years 2016/17 to 2019/20. This continued the trend of reduced central government funding for local authorities, which dates back to 2010. This is supported by the formal confirmation that Maidstone Borough Council has now received from the government that we will receive the allocations published for the remaining three years of the four year settlement, 'barring exceptional circumstances'.
- 2.15 For Maidstone, this means that we will receive no Revenue Support Grant (RSG) in 2017/18 and 2018/19 and will be subject to a 'tariff adjustment',

in other words negative RSG, of £1.6 million in 2019/20. The table below sets out details of the funding settlement for Maidstone.

Table 2: Settlement Funding Assessment

	15/16	16/17	17/18	18/19	19/20
	£m	£m	£m	£m	£m
RSG	2.3	0.9	0.0	0.0	0.0
Baseline Funding Level (see note)	3.0	3.0	3.0	3.1	3.2
Tariff adjustment	0.0	0.0	0.0	0.0	-1.6
Total Maidstone	5.2	3.9	3.0	3.1	1.6
Total England	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7

Note: Baseline Funding Level represents the amount of funding assumed by government to be collected via retained business rates.

- 2.16 The four year funding settlement runs to 2019/20. From 2020/21 the system will change, with local authorities nominally retaining 100% of business rates collected locally. As with the current regime, where 50% of business rates are retained locally, the new system will incorporate a mechanism for rates equalisation. This is likely to mean that only a fraction of the 100% will in practice be retained by the Council.
- 2.17 The additional income from 100% business rates retention will also be accompanied by devolution of further responsibilities to local government. The government has consulted about this but has not yet announced any decisions. There is a risk that the devolution of further responsibilities will have cost implications for the Council and this is recognised in the financial projections underlying the five year MTFs.

New Homes Bonus

- 2.18 New Homes Bonus forms a significant source of income for the Council. The Government distributes over £1 billion of grant in this form, based on increases in the local housing stock. Maidstone is due to receive £5.1 million in New Homes Bonus in 2016/17. Council has agreed that this will be allocated to fund the capital programme.
- 2.19 The draft Local Government Finance Settlement, published on 15 December 2016, contained proposals for changes in the way New Homes Bonus is paid. Up until now, New Homes Bonus has been paid for six years after a new home is built. From 2017/18, it will only be paid for five years, and from 2018/19 for four years. Additionally, the bonus will only be paid on housing growth in excess of 0.4%. (Growth in Maidstone has averaged around 1% in recent years). The money from cutting New Homes Bonus will be used to create a fund to support Adult Social Care. The impact on Maidstone's New Homes Bonus income, as compared with the projected amounts, will be a reduction of around £750,000 in 2017/18 and an ongoing reduction of around £1.5 million per annum in subsequent years. This means that Maidstone will have less funding for the Capital Programme.

Updates to Strategic Revenue Projections

- 2.20 The MTFS set out a number of assumptions underlying the financial projections. These can now be further refined.

Council Tax

- 2.21 For planning purposes the MTFS assumes an annual increase £4.95 per annum in Maidstone's share of the Council Tax, reverting to 2% in 2020/21 when this becomes a greater figure than £4.95.
- 2.22 Total Council Tax is a product of the tax base and the level of tax set by Council. The tax base is a value derived from the number of chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions. The tax base for 2016/17 was set at 58,525.40. The MTFS originally assumed an increase of 1% in the Council Tax Base in 2017/18. Given what we now know about the actual number of new dwellings, this increase has now been revised up to 1.3%.
- 2.23 The tax base for 2017/18 must be set by 31 January 2017, based on data extracted from the Council Tax records in mid-October 2016 and the decision of Council in December 2016 about arrangements for Council Tax Support in 2017/18. The projections set out in Appendix A are based on this decision, which will result in a reduction in the cost of the Council Tax Support Scheme of approximately £60,000.
- 2.24 Finally, the amount to be contributed from the Collection Fund to the Council's General Fund each year in respect of Council Tax is subject to an adjustment, based on whether the previous year's projections were over- or under-stated. As reported to Policy and Resources Committee on 23 November 2016, there is an additional £53,000 to be taken into account in respect of the expected closing surplus for 2016/17.

Business rates

- 2.25 The Government intends to introduce changes to business rates retention by 2020/21, following on from the end of the proposed four year settlement. Policy and Resources Committee considered the proposals put forward in the Government's consultation at its meeting on 7th September 2016 and the Council has submitted a response.
- 2.26 The proposals include 100% local retention of business rates along with a series of additional responsibilities and a realignment of the shares of business rates received by each tier of local government. As with the current 50% localisation of business rates, the proposal for 100% localisation will mean substantially less than that amount being made available to Maidstone Council with the vast majority of the resource being redistributed elsewhere within local government. The Council can also expect to lose other specific grants such as Housing Benefit Administration Grant and potentially receive additional responsibilities.

- 2.27 The strategic revenue projections for 2020/21 and 2021/22 assume that the impact of 100% retention and the adjusted redistribution by tier will mean that any change in the Council's baseline business rates would be offset by the cost of acquiring additional responsibilities, so no change is assumed in net business rates income.
- 2.28 There is a risk that the impact of additional responsibilities will create additional growth pressures on the budget, so an estimate of the likely financial impact is included in the financial projections.

Business rates growth and the Kent Business Rates Pool

- 2.29 As a member of the Kent Business Rates Pool the council has the ability to retain more of the income from growth in business rates than it otherwise would. This is because the pool members who are charged a levy (district councils) are sheltered by the pool members who receive a top-up (major preceptors). Under a specific agreement made between Maidstone Borough Council and KCC in 2014/15 and across Kent in 2015/16, the additional benefit is shared with Kent County Council. The shares and their value for the two years the scheme has been in operation are set out below.

Table 3: Distribution of the Kent Business Rates Pool

		2014/15 £000	2015/16 £000	Estimate 2016/17 £000
Maidstone Borough Council	30%	144	31	350
Kent County Council	30%	144	31	350
Growth Fund	30%	144	31	350
Contingency	10%	48	10	120
Total	100%	480	109	1170

- 2.30 It should be noted that the figure for 2015/16 was less than estimated. This is due to one of the high risk factors of locally retained business rates, which is that the Council saw a higher than expected level of appeals for which a provision was required in 2015/16. The high proportion of business rates assessments that are appealed makes business rates income highly volatile and means that a degree of caution must be applied when considering whether business rates income is sustainable and can therefore be treated as regular, recurring income for the purposes of setting a budget.
- 2.31 Previously the Council held the income from growth in reserve and committed it in the year following its receipt. This meant that the resources were not yet committed and the Council had an opportunity to modify its plans for using the resources depending on how much became available. In setting the 2016/17 budget the Council approved the use of £1.176 million, being the projected income from the 50% of business rates growth which is retained by the Council, regardless of whether or not it is a member of the pool, into its base budget. Given the volatility of business rates income, as outlined above, there was a degree of risk in

doing this. However, to date, projections for business rates in 2016/17 indicate that this income will be realised.

Local income from fees and charges

- 2.32 The Council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. The policy is not influenced directly by the MTFS with the exception that charges should be maximised within the limits of the policy.
- 2.33 In developing the Strategic Revenue Projections a broad assumption of a 1% increase in future fees and charges has been included in the MTFS. Details of specific changes in fees and charges are included in a report elsewhere on your agenda. The net effects of these charges are accounted for as new budget proposals and included in Appendix B under the category of 'increased income'.

Service Pressures

2.34 Housing

Developments in the housing market have created very significant budget pressures for the Council. Homeless households in temporary accommodation have increased in number, with a corresponding increase in costs, leading to a projected £500,000 overspend against the temporary accommodation budget in 2016/17. The Council aims to reduce the cost of providing temporary accommodation through direct investment in property, which avoids the cost of expensive third party accommodation, and through ensuring a rapid turnaround of homelessness cases. Details were set out in a report to this Committee at its meeting on 14th December 2016. There will nevertheless be a continued short term impact on budget from the Council meeting its homelessness obligations and this is reflected in the Strategic Revenue Projections.

2.35 Planning

The Council submitted a draft Local Plan in May 2016. This involved significant one-off costs. Normal ongoing revenue costs in the Planning Service have also been running ahead of budget. The Local Plan has been subject to an Inspector's Hearing in Autumn 2016 and a review has been commissioned that will address how the service is structured in the future. It is hoped that this will allow the service to deliver savings in due course but realistically these are unlikely to materialise until 2018/19.

Summary

- 2.36 As a result of the various updates to the Strategic Revenue Projections, the forecast budget gap, before taking into account any budget proposals, has now reduced slightly from £4.2 million to £4 million. This is shown in summary below and in more detail in Appendix A.
- 2.37 The Strategic Revenue Projects include growth of £100,000 in total for the Museum Service in 2017/18 and 2018/19. Policy and Resources Committee has asked that Members of this Committee review the growth item and the benefits that it would provide and whether that it is justified.

Table 4: Updated Strategic Revenue Projections

	17/18	18/19	19/20	20/21	21/22
	£m	£m	£m	£m	£m
RSG	0	0	-1.6	-1.6	-1.6
Council Tax	14.7	15.1	15.5	16.0	16.5
Business Rates	4.2	4.3	4.4	4.5	4.5
Other Income	16.8	16.9	17.0	17.0	17.1
Total Income	35.7	36.3	35.3	35.9	36.5
Total Expenditure	-37.2	-37.7	-38.1	-40.0	-40.5
Budget Gap (Cumulative)	-1.5	-1.4	-2.8	-4.1	-4.0

Budget Proposals

2.38 Officers have developed the plans set out in the MTFs and Efficiency Plan, approved by Council in September 2016. As previously, the approach has been to manage the overall risk of non-delivery of savings by adopting a blended approach, incorporating:

- efficiency savings
- income generation
- transformation and business improvement.

'Transformation and business improvement' can be distinguished from efficiency savings because, rather than simply seeking to carry out the same activities at lower cost, it aims to achieve the same outcomes, but in a different way. Service reductions are included within the budget proposals but remain a last resort.

2.39 Details of the revenue budget proposals for this committee are set out in Appendix B. Members have been briefed informally on these budget proposals.

The proposals may be summarised as follows for this committee and for Council as a whole.

Table 5: Budget Proposals

	17/18	18/19	19/20	20/21	21/22	Total
	£m	£m	£m	£m	£m	£m
Heritage, Culture & Leisure Committee	0.1	0.2	0.1	0.0	0.0	0.4
ALL COMMITTEES	1.5	1.1	0.4	0.2	0.0	3.2

It can be seen that cumulative savings of only £3.2 million have been identified as compared with the budget gap of £4 million. However, the

savings, if adopted, would allow a balanced budget to be set in 2017/18, since the budget gap of £1.5 million is covered by proposed savings of £1.5 million. Further work will be required to identify means of closing the budget gap over the five year period of the MTFS as a whole.

Capital Budget Proposals

2.40 Appendix D to this report sets out recommended capital budget proposals for this Committee, based on the proposals that have been developed to date, as set out below. The proposals are supported by submissions from scheme sponsors and have been subject to review and challenge by the Corporate Leadership Team.

2.41 Mote Park Centre - £2.2 million.

An allowance has been made in the capital programme for a visitor centre in Mote Park to replace the existing café. Work is currently under way developing proposals and a business case for the Centre.

2.42 Mote Park and Other Parks Essential Improvements - £1.066 million

These works are to update aging infrastructure. They include a figure to improve the management of water flow into Mote Park Lake from the River Len, which is work that has been identified by the Reservoir Panel Engineer responsible for Mote Park Lake.

2.43 Continued improvements to play areas - £940,000

The rationale of this project is to establish a standard for play across the borough, such that 'most residents will live within 12 minutes' walk of a good quality play area.' As some of these strategically important play areas are owned by parish councils it is proposed that these parishes be offered a £10,000 grant towards improving their play areas. The total cost of this grant would be £200,000. S106 money is available to be used towards improving play areas.

2.44 Mote Park Adventure Zone and Parking Improvements - £629,000.

The Adventure Zone forms part of the current capital programme. It is linked improvements intended to increase parking capacity within the park.

2.45 Museum Development Plan - £546,000

As part of the ongoing development of the museum, a number of projects are envisaged including the following:

- Refurbishment of Egyptian Gallery into an Ancient Civilisation Gallery
- Upgrade Old Education room to form a modern classroom
- Install an external lift for access to three galleries
- Create a new Visitor Information point

The projects will be considered in the context of the governance review for the Museum which is currently in progress.

- 2.46 Heritage, Culture & Leisure Committee is now asked specifically to consider those proposals that affect services within its remit. The remaining proposals have been considered by the relevant Service Committees in January 2017.

3. AVAILABLE OPTIONS

- 3.1 The Committee must recommend a balanced budget and a proposed level of Council Tax at its meeting on 15th February 2017. The recommendations in this report allow the budget proposals relating to this Committee to be agreed for submission to Policy and Resources Committee.
- 3.2 Alternatively, the Committee may decide not to make any decisions at this time.
- 3.3 Any changes to the financial projections, such as those arising from unforeseen service pressures or further government announcements, will be reported to the Policy & Resources Committee on 15th February 2017 or earlier if possible.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is that the Committee agrees the proposals relating to it.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each year the council as part of the development of the Strategic Plan and MTFS carries out consultation on the priorities and spending of the council.
- 5.2 Consultation on the budget in Autumn 2016 took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The survey could be accessed both as a paper document or on-line via the Council's website. It was promoted through face to face budget roadshows at a wide range of venues around the borough, in the Kent Messenger and in a range of other media.
- 5.3 The results of the consultation are set out in Appendix C. Members have been asked by the Policy and Resources Committee to demonstrate how their budget proposals respond to the priorities expressed in the budget consultation and specifically in relation to Sports and Recreation and Culture and Tourism.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Individual Service Committees are currently receiving reports setting out details of the budget proposals affecting their areas. The outcomes of the Service Committee meetings and further wider budget consultation will be reported back to the Policy and Resources Committee on 15th February 2017.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on 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. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in the relevant sections of the report. Where the Committee is concerned about a specific risk it is possible to modify the strategic revenue projection prior to its approval.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement

Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
Equality Impact Needs Assessment	The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
Environmental/Sustainable Development	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Community Safety	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Human Rights Act	None	
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Asset Management	Resources available for asset management are contained within the strategic revenue projections set out in this report.	Director of Finance and Business Improvement

8. REPORT APPENDICES

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

- Appendix A: Updated Strategic Revenue Projections 2017/18 – 2021/22
- Appendix B: Revenue Budget Proposals 2017/18 to 2021/22 – Heritage, Culture and Leisure

- Appendix C: Results of Budget Consultation
 - Appendix D: Capital Budget Proposals 2017/18 to 2021/22 – Heritage, Culture and Leisure
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9. BACKGROUND PAPERS

Report to Council, 21.9.16, Medium Term Financial Strategy and Efficiency Plan
HM Treasury, Chancellor's Autumn Statement 23.11.16
Department for Communities and Local Government, Provisional 2017/18 Local Government Finance Settlement.