

MAIDSTONE BOROUGH COUNCIL
MEDIUM TERM FINANCIAL STRATEGY
2020/21 – 2024/25

DRAFT

CONTENTS

| | |
|------------------------------------------------------------------------|-----------|
| 1. Overview and Summary of Medium Term Financial Strategy | 1 |
| 2. Corporate Objectives and Key Priorities | 3 |
| 3. National Context | 5 |
| 4. Financial Resources | 7 |
| 5. Scenario Planning | 15 |
| 6. Spending Plans – Revenue and Capital | 19 |
| 7. Revenue Projections | 24 |
| 8. Risk Management..... | 26 |
| 9. Consultation | 28 |

1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

Background

- 1.1 The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council agreed a new Strategic Plan in December 2018 which describes and prioritises our corporate objectives. The MTFS sets out how these objectives will be delivered, given the resources available.
- 1.2 Resources depend first of all on the broad economic environment. The overall picture for the economy is one of slower growth, but it is hoped that growth will resume as the uncertainties around Brexit are resolved. The present government has responded to lower growth and the reaction against austerity by announcing significant new spending initiatives. These initiatives have been in other areas from the public sector from District Councils, so there is not expected to be a direct benefit to this Council. To the extent that the Council wishes to fund new initiatives, it is likely to have to rely on self-generated resources.
- 1.3 Most of the Council's income already comes from Council Tax and other local sources, including parking, planning fees and property income. This relative self-sufficiency provides a level of reassurance, but there is considerable uncertainty about the position for 2021/22 onwards. The Government offered a four year funding settlement to local authorities in 2016, covering the years 2016/17 to 2019/20, and for 2020/21 the funding arrangements have been rolled forward without significant changes, but the future position is very uncertain.
- 1.4 Capital investment faces a different set of constraints. As set out in section 6 below, funds have been set aside for capital investment and further funding is available, in principle, through prudential borrowing. The challenge is to ensure that capital investment is affordable and sustainable, given the return on investment and the cost of finance, and that the overall scale of the capital programme remains proportionate to the Council's overall budget.

Revenue Projections

- 1.5 The strategic revenue projections underlying the MTFS 2019/20 – 2023/24 suggested that there would be a budget gap of £400,000 in 2020/21, increasing to £2.2 million by the end of the five year period, as follows. The projections were based on a 'neutral' scenario.

Table 1: Current MTFS Revenue Projections 2019/20 – 2023/24

| | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 |
|-------------------------|-------|-------|-------|-------|-------|
| | £m | £m | £m | £m | £m |
| Council Tax | 16.2 | 16.8 | 17.5 | 18.2 | 18.9 |
| Retained Business Rates | 3.2 | 1.7 | 0.4 | 0.5 | 0.6 |

| | | | | | |
|---------------------------------|------|------|------|------|------|
| Business Rates Growth | 1.1 | 0.0 | 0.2 | 0.4 | 0.7 |
| Budget requirement | 20.5 | 18.5 | 18.1 | 19.1 | 20.2 |
| Fees and Charges | 20.8 | 21.0 | 21.2 | 21.4 | 21.6 |
| Total Funding Available | 41.3 | 39.5 | 39.3 | 40.5 | 41.8 |
| Predicted Expenditure | 42.5 | 41.5 | 41.2 | 41.1 | 42.6 |
| Budget Gap | 1.2 | 2.0 | 1.9 | 0.6 | 0.8 |
| Required Savings – Cumulative | 1.2 | 3.2 | 5.1 | 5.7 | 6.5 |
| Savings identified – Cumulative | 1.2 | 2.8 | 3.7 | 4.3 | 4.3 |
| Still to be identified | 0.0 | 0.4 | 1.4 | 1.4 | 2.2 |

- 1.6 The MTFS 2020/21 – 2024/25 sets out an updated set of financial projections in section 7. However, it is important to note that projections like these can only represent a best estimate of what will happen. In updating the projections, various potential scenarios have been modelled – adverse, neutral and favourable.
- 1.7 In accordance with legislative requirements the Council must set a balanced budget. The MTFS sets out a proposed approach that seeks to address this.

2. CORPORATE OBJECTIVES AND KEY PRIORITIES

2.1 The Council has developed a new Strategic Plan which was approved by Council in December 2018. The development of a new Strategic Plan was brought forward in order to inform the refresh of the Local Plan, which sets out the framework for development in the borough and is due to be completed by April 2022. The new Strategic Plan likewise informs the whole range of other Council strategies and policies.

2.2 The new Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four key priorities, as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

'Embracing growth and enabling infrastructure' recognises the Council's role in leading and shaping the borough as it grows. This means taking an active role in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

'Homes and communities' expresses the objective of making Maidstone a place where people love to live and can afford to live. This means providing a range of different types of housing, including affordable housing, and meeting our statutory obligations to address homelessness and rough sleeping.

'A thriving place' is a borough that is open for business, attractive for visitors and an enjoyable and prosperous place to live for our residents. We will work to regenerate the County town and rural service centres and will continue to grow our leisure and cultural offer.

A 'safe, clean and green' place is one where the environment is protected and enhanced, where parks, green spaces, streets and public areas are looked after, well-managed and respected, and where people are and feel safe.

2.3 Since the adoption of the Strategic Plan in December 2018, the priority of 'Embracing growth and enabling infrastructure' has been made more explicit through our developing plans for an Innovation Centre, for Maidstone East and a new Garden Community. Investment plans have been approved by Policy and Resources Committee which seek to promote Maidstone as a 'Thriving Place', as well as generating a positive financial return for the Council. The priority of a 'Safe, Clean and Green' place has been emphasised by Council's decision to declare its recognition of global climate and biodiversity emergencies, and to consider adopting a target date of 2030 for the whole of the Borough of Maidstone to be carbon neutral.

2.4 The purpose of the MTFs is to describe how the outcomes associated with these objectives and priorities can be delivered, given the financial resources available to the Council, and bearing in mind the prioritisation of

objectives. 'Financial resources' include both revenue resources, for day-to-day expenditure, and capital resources, for one-off investment that will deliver benefits over more than a year.

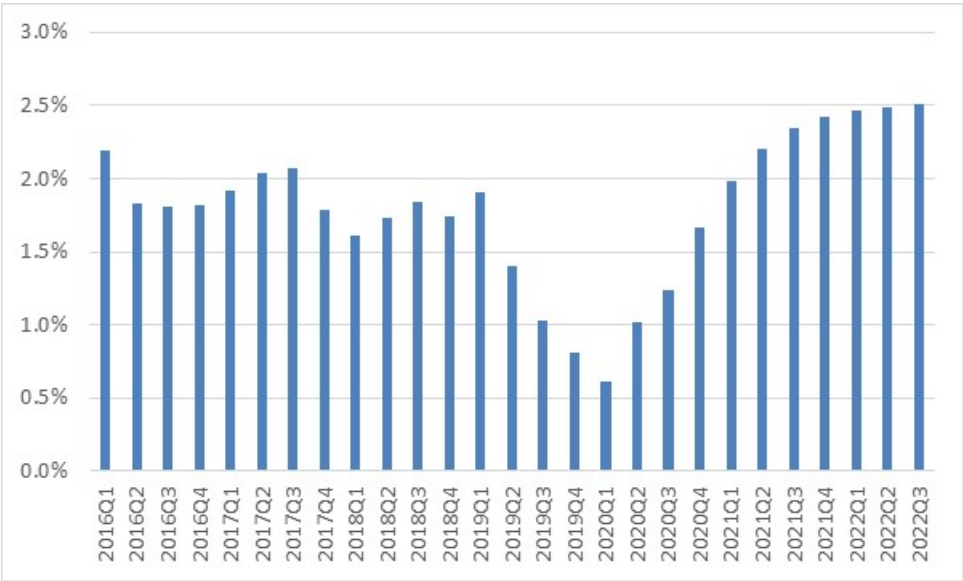
- 2.5 Resources are described in section 4 below. It will be seen that there are constraints on the funding available for the revenue budget, and there are in any case service pressures which must be accommodated. This implies a process of matching resources against the objectives in the Strategic Plan.
- 2.6 Capital investment has hitherto been funded from the New Homes Bonus, internal revenue resources and third party contributions such as Section 106 payments on new developments. From 2019/20 onwards capital investment will increasingly be funded by external borrowing. The constraints on capital expenditure are different from those facing revenue expenditure, because the current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital. Capital investment plans also depend on having the capacity, in terms of internal resources, to develop projects, work effectively with partners, and secure third party funding.

3. NATIONAL CONTEXT

Economic Outlook 2020 – 2025

- 3.1 The prospects for the national economy depend both on global economic prospects and on the consequences of Brexit. Growth projections in most leading economies, as expressed in Purchasing Managers’ Indices, have been falling, particularly where growth is heavily dependent on international trade. The Bank of England has pointed out that UK’s composite output PMI is now at the bottom of a range of advanced economies, indicating that the prospects for the UK are further exacerbated by Brexit-related uncertainties.
- 3.2 So far, these uncertainties have led to volatility in economic growth, with businesses stocking up in anticipation of Brexit in March 2019, followed by a slowdown. This has not yet pushed the economy into recession, which is defined as two successive quarters of negative growth: output grew in the three months to the end of August by 0.3% after a contraction of 0.2% in the three months to the end of June.
- 3.3 It remains to be seen whether recession can be avoided in the short term. In the medium term, the Office of Budget Responsibility expects growth in 2019 and 2020 to be slightly below potential, as Brexit uncertainty weighs on the economy. From 2021 onwards, it assumes that Brexit uncertainty will begin to fade and potential productivity growth will pick up, which means that GDP growth would rise¹. Bank of England projections show a similar picture – see graph below.

Figure 1: Real UK gross domestic product (GDP) growth rate assuming constant interest rates
(Source – Bank of England Quarterly Inflation Report August 2019)



- 3.4 The most recent Consumer Price Inflation (CPI) data shows 1.7% for the year to August 2019. The Bank of England projects inflation of 1.92% for quarter 1 of 2020 assuming constant interest rates. Thereafter, inflation is

¹ <https://obr.uk/forecasts-in-depth/the-economy-forecast/real-gdp-growth/>

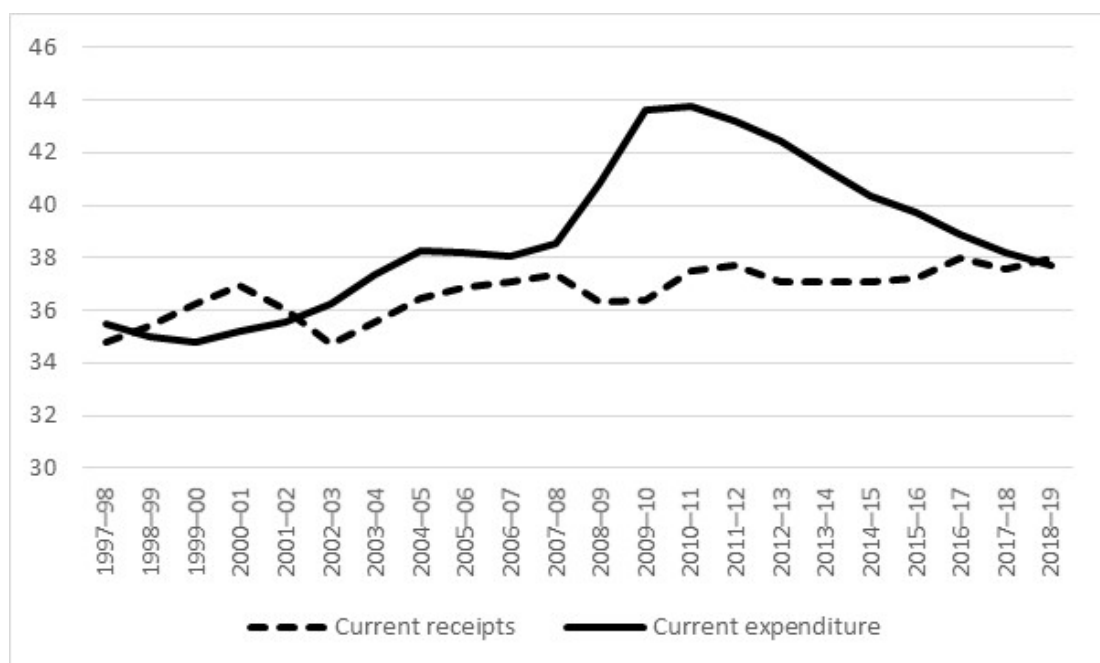
judged likely to rise slightly above the target inflation rate of 2%, based on domestic inflationary pressures. Over the longer term, policy action will be designed to ensure inflation remains within 1% above or below the target of 2%.

- 3.5 The overall picture for the national economy is therefore for slower growth in the short term before resuming a moderate rate of growth in the medium term. Inflation is projected to increase to above the Bank of England target of 2% next year, but with the expectation that policy action will bring it back in line with target in the longer term.

Public Finances

- 3.6 After a period of austerity between 2010 and 2017, government spending has come back into line with receipts.

Figure 2: Current receipts and expenditure as % of national income

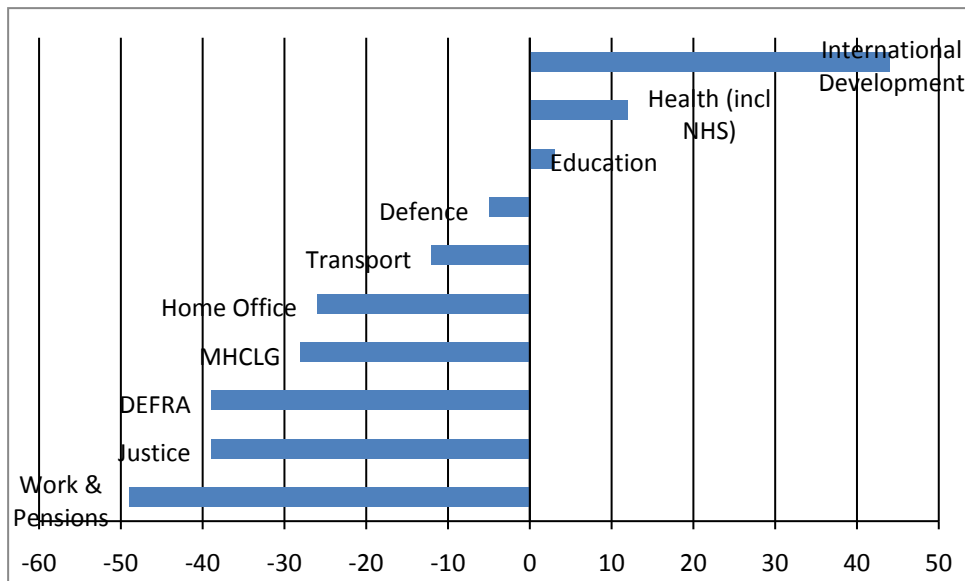


However, the cumulative deficit is at its highest ever level in relation to GDP, at 82% of national income. The government has also now rapidly changed direction following the long period of austerity, with a number of increasingly generous public spending commitments over the past twelve months. This will increase the level of borrowing as a percentage of GDP, even under a smooth Brexit scenario².

- 3.7 Within the overall reduction in public expenditure, there has been a widely disparate pattern between different government departments.

² IFS, Green Budget 2019

Figure 3: Planned real change to Departmental Expenditure Limits 2010-11 – 2019-20 (per cent)



- 3.8 MHCLG, which provides central government funding for local authorities, has seen some of the biggest cuts. Although the policy of austerity has now been reversed, it is unlikely that local government will see significant benefits given the pressures elsewhere on the public purse, in particular from the NHS.
- 3.9 The effects of austerity in local government have not been spread evenly between authorities. The increasing costs of adult social care and children's social care – services delivered by the upper tier of local government – contribute by far the majority of the funding gap faced by the sector. When local government spending needs are assessed against resources in the planned 2020 Spending Review, it is likely that any rebalancing of public spending will benefit the upper tier authorities that deliver these services, rather than District Councils like Maidstone.
- 3.10 The Queen's Speech on 14 October 2019 announced a White Paper on devolution. This may be the first step towards local government reorganisation, but at this stage it is appropriate to plan on the basis of the Council retaining its current level of autonomy.

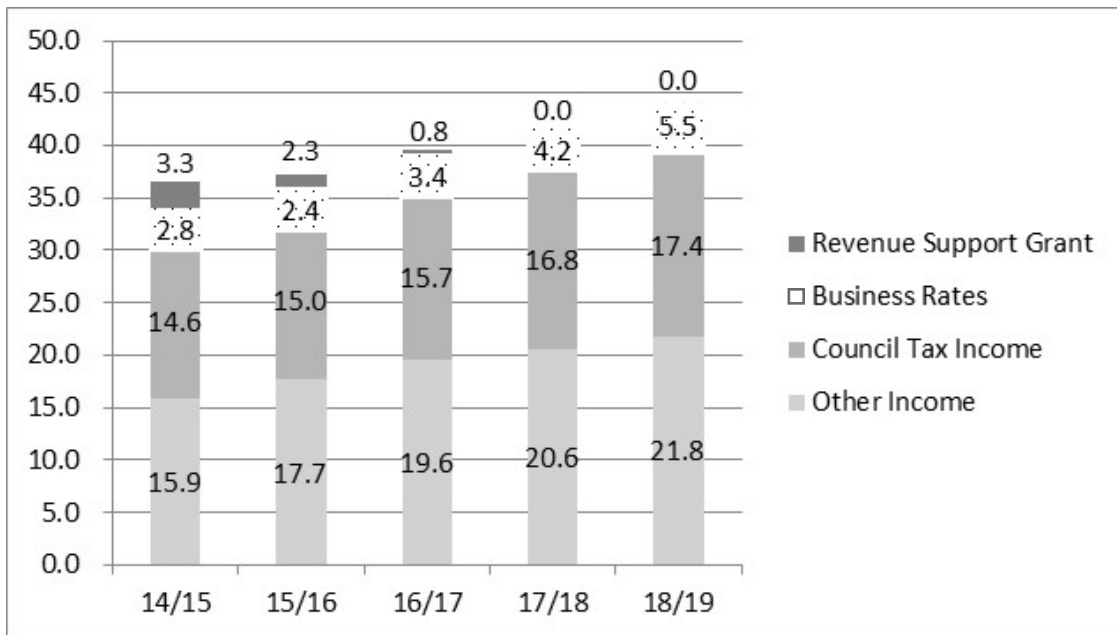
Conclusion

- 3.11 Growth in the national economy is slowing, and is vulnerable to Brexit related uncertainty. Although the government plans aggressive public expenditure which would counter-act any downturn in the economy, there is unlikely to be much direct benefit to District Councils. This Council is already largely self-sufficient, so for financial planning purposes, it needs to assume a continued reliance on self-generated resources, and to maintain a level of reserves that will allow it to withstand external shocks.

4. FINANCIAL RESOURCES

- 4.1 The Council's main sources of income are Council Tax and self-generated income from a range of other sources, including parking, planning fees and property investments. It no longer receives direct government support in the form of Revenue Support Grant; although it collects around £60 million of business rates annually, it retains only a small proportion of this.

Figure 4: Sources of Income (£m)



Council Tax

- 4.2 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.
- 4.3 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. See table below.

Table 2: Number of Dwellings in Maidstone

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------------------------|--------|--------|--------|--------|--------|
| Number of dwellings | 67,721 | 68,519 | 69,633 | 70,843 | 71,917 |
| % increase compared with previous year | 0.81% | 1.18% | 1.63% | 1.74% | 1.52% |

Note: Number of dwellings is reported each year based on the position shown on the valuation list in September.

- 4.4 The level of council tax increase for 2020/21 is a decision that will be made by Council based on a recommendation made by Policy and Resources Committee. The Council's ability to increase the level of council tax is limited

by the requirement to hold a referendum for increases over a government set limit. The referendum limit for 2019/20 was the greater of 3% or £5.00 for Band D tax payers. Council Tax was increased by the maximum possible, ie £7.56 (3%).

- 4.5 In the Medium Term Financial Strategy 2019/20 – 2023/24, it was assumed that the Council Tax base would increase by 2% per annum for the MTFs period, and Band D Council Tax increases would revert to 2% per annum after 2019/20. Given the risk of an economic slowdown, and the fact that growth of 2% per annum has never actually been achieved, a more prudent assumption for increases in the Council Tax base would be 1.5%.

Other income

- 4.6 Other income is an increasingly important source of funding for the Council. It includes the following sources of income:

- Parking
- Shared services
- Commercial property
- Planning fees
- Cremations
- Garden waste collection
- Income generating activity in parks

Where fees and charges are not set by statute, we apply a policy that guides officers and councillors in setting the appropriate level based on demand, affordability and external factors. Charges should be maximised within the limits of the policy, but customer price sensitivity must be taken into account, given that in those areas where we have discretion to set fees and charges, customers are not necessarily obliged to use our services.

- 4.7 In developing the strategic revenue projection for 2020/21 a broad assumption of a 2% increase in future fees and charges has been used for the development of the MTFs, in line with overall inflation assumptions.

Business Rates

- 4.8 Under current funding arrangements, local government retains 50% of the business rates it collects. The aggregate amount collected by local government is redistributed between individual authorities on the basis of perceived need, so that in practice Maidstone Borough Council receives only around 7% of the business rates that it collects.
- 4.9 Prior to the 2017 General Election, the Government was preparing to move to 100% business rates retention with effect from 2020. The additional income would have been accompanied by devolution of further responsibilities to local government. However, the need to accommodate Brexit legislation meant that there was no time to legislate for this. Government now intends to increase the level of business rates retention to the extent that it is able to do within existing legislation, and plans to introduce 75% business rates retention with effect from 2021/22.

- 4.10 In the meantime, the Autumn 2019 Spending Round announcement assumes a 'roll-forward' settlement for 2020/21, with the existing 50% scheme retained and the amounts retained by individual local authorities increased in line with inflation.
- 4.11 As with 50% business rates retention, the new 75% business rates retention regime will be linked to a mechanism for rates equalisation to reflect local authorities' needs. These will be assessed based on a 'Fair Funding Review'. The overall amounts to be allocated as part of the Fair Funding Review are also subject to a planned Spending Review which is now expected to take place in 2020. It is therefore difficult to predict with any degree of accuracy whether the proportion of business rates retained by Maidstone will remain the same, increase or decrease from 2021/22 onwards.
- 4.12 The current local government funding regime gives authorities the opportunity to pool their business rates income and retain a higher share of growth as compared with a notional baseline set in 2013/14. Maidstone has been a member of the Kent Business Rates pool since 2014/15. Its 30% share of the growth arising from membership of the pool is allocated to a reserve which is used for specific projects that form part of the Council's economic development strategy. A further 30% represents a Growth Fund, spent in consultation with Kent County Council. This has been used to support the Maidstone East development.
- 4.13 It should be noted that in 2021, the baseline will be reset, so all growth accumulated to that point will be reallocated between local authorities as described in paragraph 4.11 above.
- 4.14 A further element of growth was retained locally for one year only in 2018/19 as a result of Maidstone's participation in the Kent & Medway 100% Business Rates Retention pilot. Kent & Medway local authorities were successful in bidding for pilot status, which meant that 100% of business rates growth, rather than 50%, was retained locally. The additional growth was split between a Financial Sustainability Fund (70%) and a Housing and Commercial Growth Fund (30%).
- 4.15 Unfortunately, Kent & Medway was unsuccessful with its bid to form a pilot again in 2019/20, and no further pilots are planned for 2020/21.
- 4.16 Total projected business rates income for 2019/20 and the uses to which it will be put are summarised in the table below.

Table 3: Projected Business Rates Income 2019/20

| | £000 | |
|----------------------------------|-------|------------------------------------------------------|
| Business Rates baseline income | 3,208 | Included in base budget |
| Growth in excess of the baseline | 1,129 | Included in base budget |
| Pooling gain (MBC share) | 315 | Funds Economic Development projects |
| Pooling gain (Growth Fund) | 315 | Spent in consultation with KCC, eg on Maidstone East |
| Total | 4,967 | |

- 4.17 Whilst the proportion of total business rates income retained by the Council is relatively small, the amounts retained have grown significantly since the introduction of 50% business rates retention. Pressure on the government to reduce the burden of business rates and the unpredictability of future arrangements for equalising business rates income between Councils place future income growth from this source at risk.

Revenue Support Grant

- 4.18 Maidstone no longer benefits directly from central government support in the form of Revenue Support Grant, as it is considered to have a high level of resources and low needs. In fact, Councils in this situation were due to be penalised by the government under the existing four year funding settlement, through a mechanism to levy a 'tariff / top-up adjustment' – effectively negative Revenue Support Grant. Maidstone was due to pay negative RSG of £1.589 million in 2019/20. However, the government faced considerable pressure to waive negative RSG and removed it in the 2019/20 Local Government Finance Settlement. The government has also stated that it is minded not to levy negative RSG in 2020/21.
- 4.19 From 2021/22 there will be a new local government funding regime. However, it should be noted that a needs-based distribution of funding will continue to create anomalies like negative RSG, so it cannot be assumed that the threat of losing funding in this way (even if the mechanism is different) has gone away.
- 4.20 The potential negative RSG of £1.589 million for 2019/20 was held as a contingency for future funding pressures, to be applied to cushion the impact of likely reductions in resources in the future. Given that it appears that negative RSG will not be levied in 2020/21, it is proposed to continue rolling forward this contingency in anticipation of the impact of the new funding regime in 2021/22.

Balances and Earmarked Reserves

- 4.21 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. However, the Council has agreed to set £2 million as the minimum General Fund balance.

- 4.22 Within the General Fund balance, amounts have been allocated for specific purposes. These amounts do not represent formal commitments. Instead, they represent the level of reserves considered to be required for specific purposes, including asset replacement, commercialisation and Invest to Save projects.
- 4.23 In addition to unallocated General Fund balances, the Council holds reserves that are earmarked for specific purposes. Full details of reserves held are set out below.

Table 4: General Fund balances as at 31 March 2019

| | 31.3.18 £000 | 31.3.19 £000 |
|------------------------------------------------|-----------------|-----------------|
| Earmarked Reserves | | |
| New Homes Bonus funding for capital projects | 1,404 | 0 |
| Local Plan Review | 200 | 200 |
| Neighbourhood Plans funding carried forward | 70 | 64 |
| Planning Appeals Contingency | 0 | 300 |
| Accumulated Surplus on Trading Accounts | 51 | 31 |
| Civil Parking Enforcement | 481 | 419 |
| Future Capital Expenditure | 0 | 431 |
| Housing Prevention & Temporary Accommodation | 0 | 700 |
| Unspent Business Rates Growth (Pool and Pilot) | 692 | 3,682 |
| Sub-total Earmarked Reserves | 2,898 | 5,828 |
| Unallocated Balances | 9,022 | 8,620 |
| Total General Fund balances | 11,920 | 14,448 |

- 4.24 The unallocated balances comfortably exceed the £2 million minimum. They represent around 20% of the gross revenue budget, which is well in excess of the 10% benchmark that is sometimes cited as a reasonable level. It can therefore be seen that the level of reserves is adequate without being excessive.

Capital Funding

- 4.25 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing has not been required so far in 2019/20, but is likely to be in subsequent years. The cost of any borrowing is factored into the MTFS financial projections.
- 4.26 Public Works Loan Board funding has for several years offered local authorities a cheap source of finance, which has been used more and more extensively. The amount authorised by the Treasury for PWLB lending is currently capped at £95 billion, and with borrowing reaching £85 billion in October 2019, it was announced that the cost of borrowing would be increased by 100 basis point across the board, with the clear intention of

dampening demand for funds. This meant, for example, that the annual interest on a 50 year loan, repayable on maturity, increased from 1.8% to 2.8%. Given that borrowing costs in the market generally remain very low, it is considered likely that local authorities will be able to continue to borrow cheaply from other lenders, if not from the PWLB.

- 4.27 There has been a reduction of the period for which New Homes Bonus would be paid from six years to five in 2017/18 and then to four in 2018/19 and 2019/20. The government has announced its intention of paying New Homes in 2020/21, but under the new Local Government funding regime to be implemented from 2021/22 a new, unspecified mechanism for incentivising housebuilding is envisaged.
- 4.28 External funding is sought wherever possible and the Council has been successful in obtaining Government Land Release Funding for its housing developments and ERDF funding for the Kent Medical Campus Innovation Centre.
- 4.29 Funding is also available through developer contributions (S 106) and the Community Infrastructure Levy (CIL). The Community Infrastructure Levy was introduced in Maidstone in October 2018.
- 4.30 The current funding assumptions used in the programme are set out in the table below.

Table 5: Capital Programme Funding

| | 19/20 £000 | 20/21 £000 | 21/22 £000 | 22/23 £000 | 23/24 £000 | Total £000 |
|------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| External sources | 6,901 | 9,179 | 3,253 | 2,782 | 860 | 22,975 |
| Own resources | 15,185 | 1,082 | 1,277 | 1,485 | 1,682 | 20,712 |
| Debt | 29,667 | 8,644 | 9,153 | 8,371 | 9,338 | 65,173 |
| TOTAL | 51,754 | 18,905 | 13,683 | 12,638 | 11,880 | 108,860 |

A review of the schemes in the capital programme will take place during the course of Autumn 2019. Proposals will also be considered for new schemes to be added to the capital programme. The affordability of the capital programme will be considered as part of this review, as it is essential that any borrowing to fund the capital programme is sustainable and affordable in terms of its revenue costs.

- 4.31 Under CIPFA's updated Prudential Code, the Council is now required to produce a Capital Strategy, which is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. A Capital Strategy was approved by Council at its meeting on 25 September 2019.

- 4.32 The outcome of the capital programme review and an updated Capital Strategy will be considered by Policy and Resources Committee in January 2020 and an updated capital programme and strategy recommended to Council for approval.

5. SCENARIO PLANNING

- 5.1 Owing to uncertainty arising from the economic environment, and from the lack of clarity about what the government's plans for local government funding will mean for the Council, financial projections have been prepared for three different scenarios, as follows.

1. Favourable

Brexit is accompanied by a government-induced stimulus to the economy, which provides more funding for local government. In the medium term, this generates higher economic growth which more than offsets any potential negative Brexit impacts.

2. Neutral

Current trends are maintained. The Council is able to maintain existing service levels and to fund inflationary increases in expenditure thanks to a steadily growing Council Tax base and regular annual increases in Council Tax. However, without any overall increase in local government spending, new spending pressures have to be funded from within existing resources.

3. Adverse

An adverse outcome from Brexit leads to recession, reducing Council income but increasing service pressures in areas like homelessness, requiring spending cuts in order to ensure that statutory services are maintained.

Details of key assumptions underlying each of these scenarios are set out below.

Council Tax

- 5.2 It is assumed that the Council will take advantage of any flexibility offered by central government and will increase Council Tax up to the referendum limit. The government plans to set a referendum limit of 2% for 2020/21. It is not known at this stage what the referendum limit will be for subsequent years, but it is assumed to be 2%, to align with the government's inflation target. This assumption applies to all three scenarios, as Council Tax is the authority's principal and most reliable source of income, and it would not be prudent to fail to maximise income from this source.
- 5.3 The other key assumption regarding Council Tax is the number of new properties. The number of new properties has been increasing in recent years, from a low of 0.38% in 2014, peaking at 1.74% in 2018. The rate of increase nevertheless remains lower than that implied by Local Plan new homes targets. Assumptions are as follows:

Favourable – 2%

Neutral – 1.5%

Adverse – 1%

- 5.4 The target collection rate for Council Tax is 98%. Current indications are that the actual collection rate for 2019/20 will be at, or very close to, this level. However, in the event of a recession, residents will be under greater financial pressure and this could lead to a lower collection rate. A further 0.5% of income is therefore assumed to be lost in this scenario.

Business Rates

- 5.5 The Council receives only a small proportion of the business rates that it actually collects. In 2020/21, the Government indicated in its Spending Round announcement in September 2019 that it would roll forward the existing arrangements, with an increase in the business rates baseline to reflect inflation.
- 5.6 After 2021, the proportion of business rates retained by the authority will be adjusted to reflect the findings of the Fair Funding Review and the Spending Review. It is very difficult to predict what this will mean in practice. However, for the purposes of revenue projections, a number of assumptions have been made.
- 5.7 The starting point in the government's calculations will be Maidstone's perceived level of need, which in the current four year funding settlement led to the Council being faced with a negative revenue support grant payment of £1.589 million in 2019/20. In the event, this was not levied on the Council, following concerted lobbying by Maidstone and other authorities that faced negative RSG. The amount of negative RSV thus avoided in 2019/20 is being held in reserve to address likely future funding pressures.
- 5.8 The starting point for future business rates income is therefore assumed to be the current baseline share of business rates income, as adjusted for inflation in 2020/21, less £1.589 million. It is not accepted that this would be a fair allocation of business rates income but it is nevertheless prudent to make this assumption for forecasting purposes.
- 5.9 A further factor to be considered is the resetting of the government's business rates baseline in 2021/22. This represents the level above which the Council benefits from a share in business rates growth. It is likely that the government will reset the baseline in order to redistribute resources from those areas that have benefitted most from business rates growth in the years since the current system was introduced in 2013, to those areas that have had lower business rates growth. Accordingly, cumulative business rates growth has been removed from the projections for 2021/22, then is gradually reinstated from 2022/23.
- 5.10 The target collection rate for Business Rates is 98.6%. Current indications are that the actual collection rate for 2019/20 will be closer to 98%. In the event of a recession, businesses will be under greater financial pressure and the number of businesses failures will be higher, leading to a still lower collection rate. A further 2% of income is therefore assumed to be lost in this scenario.

- 5.11 Given these assumptions, the specific assumptions for business rates growth in each scenario are as follows:

Favourable – 2% increase in multiplier plus 2% growth in base

Neutral – 2% increase in multiplier plus 1% growth in base

Adverse – 3% increase in multiplier, 0% growth in base and 2% losses from lower collection rate

Inflation

- 5.12 The most recent Bank of England inflation report recognised an inconsistency between market expectations of inflation, which assume very low interest rates in the near term, and the Bank's own inflation forecasts, which align with its more aggressive assumptions about interest rates. A further potential factor is the impact of any sterling depreciation on input prices, which could push up inflation rates.
- 5.13 For the purpose of forecasting, it is assumed that the government's target rate of inflation is 2% is achieved in the favourable and neutral scenarios. A higher rate of 3% is assumed in the adverse scenario, reflecting the risk of increases in input prices pushing up inflation rates.

Pay inflation

- 5.14 Pay is the Council's single biggest item of expenditure, accounting for around 50% of total costs. Although the Council sets pay rates independently of any national agreements, in practice it has to pay attention to overall public sector and local authority pay settlements, as these affect the labour market in which the Council operates. It will be difficult for the Council to ignore this, so the assumption about pay inflation in all scenarios is that it will be in line with general inflation assumptions. Furthermore, an additional 0.5% has to be allowed for in pay inflation assumptions arising from the annual cost of performance related incremental increases for staff.

Fees and charges

- 5.15 The projections imply that fees and charges will increase in line with overall inflation assumptions, to the extent that the Council is able to increase them. In practice, it is not possible to increase all fees and charges by this amount as they are set by statute. Accordingly, the actual increase in income shown in the projections is 50% of the general inflation assumption in each scenario.
- 5.16 A favourable economic climate could be expected to boost fees and charges income above and beyond the rate of inflation. Conversely, in the event of a recession, as assumed under the adverse scenario, a number of the Council's income streams could suffer. In some cases (eg Planning fees) the Council could eventually cut its costs accordingly, although there would be a time lag. However, this does not apply to all income streams. In particular, Parking income is highly sensitive to the overall economy, and there are few mitigations available if income falls. Accordingly, under the adverse scenario, a 2% year on year loss of income is assumed.

Contract costs

Costs are generally assumed to rise in line with inflation, but a composite rate is applied to take account of higher increases on contracts like waste collection where the growth in the number of households leads to a volume increase as well as an inflation increase.

5.17 Inflation assumptions are summarised as follows.

Table 6: Inflation Assumptions

| | Favourable | Neutral | Adverse | Comments |
|---------------------------|---------------|---------------|---------------|-------------------------------------------------------------------------------------------------------------------------------|
| General | 2.00% | 2.00% | 3.00% | 2% is the government's target inflation rate but there is a risk of higher inflation if sterling depreciates following Brexit |
| Employee Costs | 2.00% | 2.00% | 3.00% | Neutral assumption is in line with the most recent pay settlement and government inflation targets |
| | 0.50% | 0.50% | 0.50% | The annual cost of performance related incremental increases for staff |
| Contract costs | 2.00% - 5.00% | 2.00% - 5.00% | 2.00% - 8.00% | A composite rate is applied, reflecting different pressures on individual contracts |
| Fees and charges - price | 2.00% | 2.00% | 3.00% | In line with general inflation assumptions |
| Fees and charges - volume | 2.00% | 0.00% | -2.00% | Reflects overall economic conditions |

Service Spend

5.18 Strategic Revenue Projections under all scenarios assume that service spend will remain as set out in the previous MTFs, so savings previously agreed by Council will be delivered and no further growth arising from the new Strategic Plan is incorporated. In practice, it is likely that service spending would need to be reduced if the adverse scenario were likely to arise.

5.19 The projections include provision for the revenue cost of the capital programme, comprising interest costs (2.5%) and provision for repayment of borrowing (2%).

Summary of Projections

5.20 A summary of the financial projections under each of the scenarios is set out in section 7.

6. SPENDING PLANS – REVENUE AND CAPITAL

- 6.1 This section sets out current revenue and capital spending plans, so that an assessment can be made as to whether the plans support the Council's strategic priorities, and therefore whether resources are employed appropriately.

Revenue

Table 7: 2018/19 Revenue Outturn and 2019/20 Savings and Growth

| Committee | Service | 2018/19 | | | 2019/20 | |
|-----------|-------------------------------|-----------------------|-----------------------------|---------------------------------|----------------|---------------|
| | | Final adjusted budget | Actual outturn for the year | Variance (-Adverse/ Favourable) | Budget savings | Budget growth |
| | | £000 | £000 | £000 | £000 | £000 |
| CHE | Communities & Housing | 4,444 | 4,089 | 355 | 119 | 0 |
| | Environment & Public Realm | 4,244 | 4,539 | -295 | 116 | -30 |
| ERL | Heritage, Culture & Leisure | 1,852 | 1,951 | -99 | 167 | 0 |
| | Economic Development | 614 | 576 | 38 | 7 | 0 |
| S P I | Planning Services | 1,291 | 1,507 | -216 | 60 | -24 |
| | Parking & Transportation | -1,939 | -1,978 | 39 | 271 | 0 |
| P & R | Property & Investment | -79 | -300 | 221 | 291 | 0 |
| | Corporate and Shared Services | 9,022 | 8,911 | 111 | 151 | -27 |
| | Total | 19,449 | 19,294 | 154 | 1,182 | -81 |

Details by service area are set out below.

Communities and Housing

- 6.2 This service area supports the corporate priority 'Housing and Communities'. The Housing Service has been successful in managing an increasing workload over the past couple of years, thanks in part to one-off government grant funding, and to local initiatives such as the purchase of property to provide temporary accommodation. The service remains demand-driven, so whilst the number of families in temporary accommodation appears currently to have stabilised at around 100, this could change. Current budgets however assume that the status quo is maintained.
- 6.3 Our project with EY Xantura, funded via the Business Rates Retention pilot one-off resources, seeks to target homelessness prevention interventions and reduce the risks and incidence of homelessness in the medium term.

- 6.4 The capital budget for 2019/20 includes provision for phase 3 of the temporary accommodation investment programme and ongoing expenditure on the Brunswick Street and Union Street developments, both of which are currently in progress.
- 6.5 In the longer term, the Housing Development and Redevelopment Investment Plan and our plans for Council affordable housing are designed to contribute towards meeting housing need across a range of different tenures.

Environment & Public Realm

- 6.6 These services support the 'clean and green' agenda, as they include street cleaning, grounds maintenance in parks and open spaces, and household waste collection. Waste collection is outsourced and the cost of the service is directly linked to inflation indices. The adverse variance in 2018/19 was owing to a one-off change in accounting treatment of Garden Waste income and has no ongoing implications.
- 6.7 Budgets assume that current service levels are maintained. However, a provision has been included in the MTFS for a potential annual increase in costs of £500,000 when the existing contract with Biffa comes to an end.

Heritage, Culture & Leisure

- 6.8 This service area helps to make Maidstone a 'thriving place'. It includes the museum, leisure services and bereavement services. Leisure services are seeing significant capital investment at Mote Park with the Adventure Zone and the forthcoming Visitor Centre. This forms part of a long term strategy for Mote Park whereby self-sufficiency is achieved by investment in income generating activities, so the Adventure Zone is projected to deliver £114,000 additional income annually which will contribute towards the running costs of the park. However, it is clear that new visitors also create additional spending pressures in Mote Park generally, highlighting the need for careful forecasting when planning future investment.
- 6.9 The Bereavement service continues to be successful in exceeding its income targets. The business case for further investment in the service is therefore strong.

Economic Development

- 6.10 Economic Development likewise supports the priority of making Maidstone a thriving place. The Council has a small ongoing revenue budget for economic development, supplemented by funding from the Business Rates Pool. The service also plays a key role in major capital-funded projects including the Kent Medical Campus Innovation Centre and Maidstone East.

Planning Services

- 6.11 Planning Services provide the essential framework for 'embracing growth and enabling infrastructure'. These services include spatial planning, and specifically the Local Plan review, infrastructure planning, liaison with

developers on major applications, and day-to-day development management and processing of planning applications. The Planning Service is subject to some volatility in income, particularly with major applications, which led to a budget shortfall in 2019/20. This will require careful management. The current MTFS allows for £800,000 to be spent over the next four years on the Local Plan refresh.

- 6.12 There remains a risk of costs in relation to planning appeals, but known likely costs have been provided for in the accounts as at the end of 2018/19.

Parking & Transportation

- 6.13 Parking and Transportation likewise support growth and infrastructure, as well as serving the priority of making Maidstone a thriving place. The Parking Service traditionally out-performed its income budgets, and budgets were increased accordingly. 2018/19 saw a budget surplus, but the margin was smaller than in previous years, reflecting the fact that more income has been built into the base budget. Future years' income will be heavily dependent on performance of the wider economy and specifically on Maidstone Town Centre's success in attracting visitors.

- 6.14 A saving has been achieved by re-commissioning the Park and Ride service.

Property & Investment

- 6.15 This service is responsible for the Council's own property and investments. The Council's commercial property investment strategy both generates a financial return and supports the regeneration agenda by investing in the local economy. In recent years the Council has been able successfully to generate additional income from commercial investments. Further capital investment has been undertaken in 2019/20 and is planned in the future.

Corporate & Shared Services

- 6.16 Corporate services provide the essential support structure to enable all the corporate priorities to be realised. They include central staffing budgets and office accommodation. The Council's future office accommodation needs are under review, with its lease on Maidstone House expiring in 2023. In the meantime, we will seek to maximise value from the space occupied.

- 6.17 Shared Services continue to provide resilience and offer the potential for additional income, eg from lending Internal Audit staff to other authorities and from our debt collection service.

Summary - Revenue

- 6.18 Most service areas are already scheduled to deliver savings in 2020/21 following previous Council decisions. To the extent that savings cannot be delivered, or additional revenue growth is required in order to meet strategic priorities, further savings will need to be identified so as to remain within the constraint of an overall standstill budget.

Capital

6.19 In drawing up the capital programme, there has been a focus on schemes that both meet strategic priorities and are self-funding. Major initiatives include the following.

- The Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, following on from the developments at Brunswick Street and Union Street, thereby addressing the need for new homes in the borough and generating long term revenue returns through developing homes for market rent.
- The Affordable Housing programme envisages the acquisition of up to 200 social rented homes on smaller developments, to be managed by a Registered Provider (RP).
- The Commercial Investment Strategy builds on the Council's existing commercial investment property portfolio and assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return and support the priority of making Maidstone a thriving place.
- The Kent Medical Campus Innovation Centre, part-funded by the ERDF, will bring new businesses and jobs into the area.

Table 8: Capital Programme 2019/20 to 2023/24

| | 19/20 £000 | 20/21 £000 | 21/22 £000 | 22/23 £000 | 23/24 £000 | Total £000 |
|-----------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Brunswick Street - Net Cost | 3,441 | -100 | | | | 3,341 |
| Union Street - Net Cost | 2,085 | -1,843 | | | | 242 |
| Indicative Schemes | 4,124 | 5,426 | 3,750 | 3,750 | | 17,050 |
| Council Affordable Housing | | | 3,750 | 3,750 | 7,500 | 15,000 |
| Disabled Facilities Grants | 1,570 | 800 | 800 | 800 | 800 | 4,770 |
| Temporary Accommodation | 3,236 | | | | | 3,236 |
| Housing Incentives | 1,040 | 175 | 175 | 175 | 175 | 1,740 |
| Gypsy Site Improvement Works | 42 | | | | | 42 |
| CCTV Upgrade and Relocation | 150 | | | | | 150 |
| Commercial Waste | 180 | | | | | 180 |
| Street Scene Investment | 147 | 25 | | | | 172 |
| Flood Action Plan | 1,000 | 63 | | | | 1,063 |
| Communities, Housing & Environment Total | 17,015 | 4,546 | 8,475 | 8,475 | 8,475 | 46,986 |
| Improvements to Play Areas | 422 | | | | | 422 |
| Crematorium and Cemetery Projects | 140 | 130 | | | | 270 |
| Mote Park Improvements | 374 | | | | | 374 |
| Mote Park Visitor Centre | 2,122 | | | | | 2,122 |

| | 19/20 £000 | 20/21 £000 | 21/22 £000 | 22/23 £000 | 23/24 £000 | Total £000 |
|-------------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Mote Park Lake - Dam Works | 267 | 1,650 | 100 | | | 2,017 |
| Other Parks Improvements | 100 | | | | | 100 |
| Museum Development Plan | 11 | 125 | 200 | 64 | | 401 |
| Economic Regeneration & Leisure Total | 3,437 | 1,905 | 300 | 64 | | 5,706 |
| High Street Regeneration | 547 | | | | | 547 |
| Asset Management / Corporate Property | 1,417 | 467 | 175 | 175 | 175 | 2,409 |
| Feasibility Studies | 113 | 50 | 50 | 50 | 50 | 313 |
| Infrastructure Delivery | 1,200 | 600 | 600 | 600 | 600 | 3,600 |
| Software / PC Replacement | 124 | 287 | | | | 411 |
| Digital Projects | 20 | 20 | 20 | 20 | 20 | 100 |
| Acquisition of Commercial Assets | 24,850 | 2,500 | 2,500 | 2,500 | 2,500 | 34,850 |
| Kent Medical Campus-Innovation Centre | 649 | 8,250 | 1,500 | | | 10,399 |
| Maidstone East | 520 | | | | | 520 |
| Policy & Resources Total | 29,440 | 12,174 | 4,845 | 3,345 | 3,345 | 53,149 |
| Mall Bus Station Redevelopment | 1,540 | | | | | 1,540 |
| Bridges Gyrotory Scheme | 121 | | | | | 121 |
| Strategic Planning & Infrastructure Total | 1,661 | | | | | 1,661 |
| Sub-Total | 51,553 | 18,625 | 13,620 | 11,884 | 11,820 | 107,502 |
| Section 106 Contributions / CIL | 201 | 280 | 63 | 754 | 60 | 1,358 |
| TOTAL | 51,754 | 18,905 | 13,683 | 12,638 | 11,880 | 108,860 |

6.20 A review of the schemes in the capital programme will take place during the course of Autumn 2019 and proposals will be considered for new schemes to be added to the capital programme, whilst ensuring that the overall capital programme is sustainable and affordable in terms of its revenue costs.

7. REVENUE PROJECTIONS

- 7.1 It is inherent in the Medium Term Financial Strategy that the Council matches available resources to strategic objectives, such that income and expenditure are balanced and any budget gap is eliminated. In addition to the legal requirement to set a balanced budget for 2020/21, the Council needs to have credible plans in place to address any budget gap in subsequent years. In the interests of prudence, these plans need to address not only a neutral set of projections but also the potential adverse scenario outlined above.
- 7.2 Based on the assumptions set out in Section 5, financial projections indicate a revenue budget position as follows under the different scenarios.

Table 9: Projected Budget Gap 2020/21 – 2024/25

| | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |
|--------------------------------|-------------|------------|------------|------------|------------|
| | £m | £m | £m | £m | £m |
| Scenario 1 – Favourable | | | | | |
| Budget gap / (surplus) | -0.2 | 0.8 | 1.1 | 1.4 | 1.2 |
| Scenario 2 – Neutral | | | | | |
| Budget gap / (surplus) | -0.1 | 0.9 | 1.6 | 2.1 | 2.2 |
| Scenario 3 – Adverse | | | | | |
| Budget gap | 0.4 | 1.9 | 3.3 | 4.6 | 5.5 |

- 7.3 Current spending plans, as set out in the previous section, have been reviewed for feasibility, affordability and consistency with strategic objectives. As the financial projections indicate a broadly balanced position for 2020/21, no specific targets have been set for savings or increased income generation in this year. However, any service pressures, or initiatives with revenue expenditure implications, will have to be funded from within the overall budget envelope, meaning savings or additional income growth to offset the expenditure growth.
- 7.4 In subsequent years, the projections indicate a likely requirement either to make savings or generate increased income. By planning a build up in reserves that can be released in 2021/22, the MTFS avoids a potential cliff-edge where savings need to be made at short notice.
- 7.5 Detailed budget proposals are currently being developed, prior to consideration by Service Committees and the wider stakeholder group in January 2020.
- 7.6 The following table compares the position in the neutral scenario for a 2% Council Tax increase with that for a Council Tax freeze, as requested by Members at the meeting of Policy and Resources Committee on 23 July 2019.

Table 10: Projected Budget Gap with Council Tax freeze

| | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |
|--|-------|-------|-------|-------|-------|
| | £m | £m | £m | £m | £m |

| Neutral Scenario – Council Tax increase 2% per annum | | | | | |
|-------------------------------------------------------------|-------------|------------|------------|------------|------------|
| Budget gap | -0.1 | 0.9 | 1.6 | 2.1 | 2.2 |

| Neutral Scenario – Council Tax freeze | | | | | |
|----------------------------------------------|------------|------------|------------|------------|------------|
| Budget gap | 0.2 | 1.6 | 2.6 | 3.5 | 4.0 |

Assuming all other factors remained unchanged, freezing Council Tax would lead to a budget gap of £200,000 in 2020/21. Over the longer term, it can be seen that not increasing Council Tax in line with inflation increases the budget gap to a level which risks being unmanageable.

8. RISK MANAGEMENT

- 8.1 As indicated in the previous sections, the Council's MTFS is subject to a high degree of risk and certainty. In order to address this in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.
- 8.2 The major risk areas that have been identified as potentially threatening the Medium Term Financial Strategy are as follows.
- Failure to contain expenditure within agreed budgets
 - Fees and Charges fail to deliver sufficient income
 - Commercialisation fails to deliver additional income
 - Planned savings are not delivered
 - Shared services fail to meet budget
 - Council holds insufficient balances
 - Inflation rate predictions in MTFS are inaccurate
 - Adverse impact from changes in local government funding
 - Constraints on council tax increases
 - Capital programme cannot be funded
 - Increased complexity of government regulation
 - Collection targets for Council Tax and Business Rates missed
 - Business Rates pool fails to generate sufficient growth
 - Adverse financial consequences from a disorderly Brexit
- 8.3 It is recognised that this is not an exhaustive list. By reviewing risks on a regular basis, it is expected that any major new risks will be identified and appropriate mitigations developed.
- 8.4 An assessment of the relative impact and likelihood of the risks identified is set out below.

Table 11: Budget Risk Matrix

| | | | | | | |
|-------------------|---|---------------|---|------|-----|---|
| Likelihood | 5 | | | | | |
| | 4 | | | L | H,N | |
| | 3 | | M | G, I | B | |
| | 2 | | E | C | A,D | J |
| | 1 | | K | F | | |
| | | 1 | 2 | 3 | 4 | 5 |
| | | Impact | | | | |


Black – Top risk

Red – High risk

Amber – Medium risk

Green – Low risk

Blue – Minimal risk



Key

- A. Failure to contain expenditure within agreed budgets
- B. Fees and Charges fail to deliver sufficient income
- C. Commercialisation fails to deliver additional income
- D. Planned savings are not delivered
- E. Shared services fail to meet budget
- F. Council holds insufficient balances
- G. Inflation rate predictions in MTFS are inaccurate
- H. Adverse impact from changes in local government funding
- I. Constraints on council tax increases
- J. Capital programme cannot be funded
- K. Increased complexity of government regulation
- L. Collection targets for Council Tax and Business Rates missed
- M. Business Rates pool fails to generate sufficient growth
- N. Adverse financial impact from a disorderly Brexit

8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

9. CONSULTATION

- 9.1 Each year the Council carries out consultation as part of the development of the MTFS. A consultation is currently under way and the results will be taken into account by Members when they consider detailed budget proposals in January 2020.
- 9.2 Consultation will also be carried out in December 2019 – January 2020 on the detailed budget proposals. Individual Service Committees will consider the budget proposals relating to the services within their areas of responsibility. Full details of the proposals will be published and residents' and businesses' views welcomed.

Document History

| Date | Description | Details of changes |
|----------|-----------------------------|--------------------|
| 21.10.19 | Draft to Service Committees | |