

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 14 July 2010

BUDGET STRATEGY 2011/12 ONWARDS

Issue for Decision

To give initial consideration to a Budget Strategy for 2011/12 and beyond.

Decision Made

1. That for planning purposes, the Council Tax increase for 2011/12 and future years be set at 2.5% to inform the strategic projections provided in Appendix F of the report of Management Team.
2. That the scenario to be adopted is the "Most Likely" as outlined in the strategic projections in the report of Management Team.
3. That the extent of the Capital Programme for 2011/12 onwards be noted.
4. That the timetable for the Budget Strategy 2011/12 be noted.

Reasons for Decision

This Authority has, for many years, adopted best practice and considered strategic budget issues at this stage in the municipal year. This allows for the early consideration of key issues, with a view to setting a balanced budget for the following financial year at the Council meeting in March 2011.

The budget strategy needs to be considered in the context of the strategic plan and the resources necessary to deliver the key priorities identified therein. Although the correct context is with the 2011 update to the strategic plan for 2009-2013, this will not be considered by Cabinet until later in the year, at which time this budget strategy will be aligned with the priorities it will contain. The current strategic plan 2009-2013 contains five priority themes for which major elements of this budget strategy provide support and any necessary growth. The five priority themes are:

- A place to achieve, prosper and thrive
- A place that is clean and green
- A place that has strong, healthy and safe communities
- A place to live and enjoy
- A place with efficient and effective public services

Work on the Medium Term Financial Strategy is linked to the strategic plan and the service plans, which will consider resources over a three to five year timespan to ensure alignment of budgets and priorities.

Attached at Appendix A of the report of Management Team is the budget summary for 2010/11 which was agreed by Council in March 2010. This was developed in the context of the Strategic Plan 2009-2012.

For further background information, the following is also attached.

- a) The currently agreed Medium Term Financial Strategy is set out at Appendix B of the report of Management Team;
- b) The current statement of balances projected to 2010 is detailed in Appendix C of the report of Management Team, this takes into account the final outturn position for 2009/10 reported to cabinet in June 2010;
- c) The current capital programme is set out at Appendix D of the report of Management Team; and
- d) The current projection for the use of Capital Receipts is set out in Appendix E of the report of Management Team.

The Local Context

The outturn position for 2009/10 was reported to the Cabinet meetings in May and June 2010. These reports showed that income generation continued to be difficult for the Council. During 2009/10 the Council took action on the budget expectations for income reducing targets by £0.6m and through management action by a further £0.5m. In 2010/11 budget strategy and other actions reduced income targets by a further £1m. These adjustments, giving a total reduction in income expectation of £2.1m, will naturally carry forward into the base position for the development of the 2011/12 budget.

As a counterpoint to this loss of income, salary slippage was available to cover other overspending areas. This resource, created by the vacancy rate, is an annual occurrence that is diminishing as staffing levels reduce.

The 2009/10 outturn also reported a significant receipt from HM Revenue & Customs due to the Council's claims under the Fleming arrangements. The net effect after costs and commitments is £1.7m which has been added to balances for use in 2010/11. This is shown in Appendix C of the report of Management Team which also reports unallocated balances of £0.7m along with the minimum working balance of £2.3m.

The 2010/11 budget, detailed at Appendix A of the report of Management Team, is a balanced and deliverable budget that creates a base spending position of £22.8m for the commencement of the current Medium Term Financial Strategy.

The National Context

The economic conditions that have existed since 2008/09 have forced significant change on the public sector. In local government this has created increased demand and therefore increased the cost of welfare services such as housing benefit and homelessness. It has also reduced demand and therefore reduced the income generated by other services such as parking and planning. For all organisations declining interest rates and declining cash balances have meant significant reductions in investment income.

At the depth of the recession there are indicators of growth in the market coupled with debate about the extent of this move out of recession. Irrespective of these facts, it is clear that the public sector will continue to suffer from the effects of the recession long after the private sector has recovered.

Tabulated below are national indicators of growth and debt given as calendar year results:

Index	2008	2009	2010
			<i>PREDICTED</i>
Growth	3.5%	-3.6%	1.2%
Budget Deficit	£34.4 bn	£101.3 bn	£157.6 bn
Debt	£614.4 bn	£796.9 bn	£1,060 bn

Tabulated below are inflation and interest indicators at each year end over the period of the recession and the position for May 2010:

Index	March 2008	March 2009	March 2010	Current
RPI	3.8%	-0.4%	4.4%	5.1%
CPI	2.5%	2.9%	3.4%	3.4%
Base Rate	5.25%	0.5%	0.5%	0.5%
7 Day LIBOR	5.71%	0.67%	0.55%	0.55%

Through the budget speech on 22nd June 2010 the Government introduced a five year plan of actions to achieve economic growth. A major objective of the plan is a move away from borrowing through targeted reductions in debt (expressed as a percentage of Gross Domestic Product [GDP]). A central element to this objective is £30 billion annual spending reductions until 2014/15. This has been reported as a 25% reduction in public sector spending over four years.

The most direct effects of this plan upon local government are:

- a) The spending reduction, which equates to 25% over the next four years, is expected to see a proportionate effect upon support for local government when details are announced in the spending review expected in October 2010;

- b) A two year freeze on public sector pay has been introduced for all employees earning more than £21,000 per annum. Those earning less than this sum will receive a flat rate increase of £250 per annum;
- c) Arrangements will be made to enable local authorities to freeze Council Tax for 2011/12.

There are also a number of measures that will have either a lesser effect or an indirect effect upon local authorities:

- a) A review of public sector pensions which may have a future effect;
- b) Changes to small business rate relief and benefit payments both of which are administered by local authorities;
- c) A change to the VAT rate from January 2011 which will effect local government charges for those services that include VAT;
- d) Changes to employer national insurance through raised thresholds;
- e) A commitment to make no further cuts in capital spending beyond those already announced.

As part of the Governments in-year saving, announced on 10th June 2010, a number of grant based initiatives including Housing and Planning Delivery Grant (HPDG) and Local Authority Business Growth Incentive Scheme (LABGI) were stopped. These grants were targeted at a priority issue for the Government but were considered ineffective. The Government intends to introduce an alternative incentive for Housing and Business Growth.

Another grant amended as part of the announcement on 10th June 2010 was the Local Area Agreement reward. This grant effects the funding for Local Strategic Partnerships and has been halved.

In addition to the national changes detailed above there is a major factor that exists on a county wide scale. Kent County Council, the pension authority, is completing a triennial actuarial review of the pension fund. This review will aid the calculation of accurate deficits for each authority's share of the fund. Consequently, it is expected that the contributions required to fund the deficit will change. Due to the economic decline this change is expected to be significant and adverse.

Strategic Projection

The strategic projection is a financial model used annually by Cabinet to concisely project the effect of major local and national priorities on the future financial circumstances of the Council. In the past Cabinet has used a document that models the most likely outcome, amending and updating the document as knowledge of the internal and external environment changes. Current best practice suggests that the strategic projection should be a scenario planning tool and that a number of models ranging from a best-case, to a worse case should be developed and used. Scenario planning was used by Cabinet for the first time last year and

officers have again developed three alternative models best, worst, and most likely cases, that the Cabinet considered.

All three alternatives included a number of assumed factors such as inflation rates, capital expenditure and capital resources available, government actions in relation to general grant levels and the council tax increase for each year. The model will be maintained and amended as more accurate information becomes available during the year. Cabinet agreed that the "Most Likely" scenario be adopted and future reports will be focused on this scenario, providing details of the others as background information.

The models were attached at Appendix F of the report of Management Team and were based on a series of financial assumptions. As the assumptions were compiled separately for each of the three scenarios the most appropriate way to display the necessary information is in a matrix which is shown at Appendix G of the report of Management Team.

Appendix F of the report of Management Team shows that, based upon the assumptions detailed, a significant level of saving will be required to ensure the provision of a balanced budget. The level of saving for each year, and for each of the three scenarios, is shown in the table below.

Year	Best Case Scenario £000	Most Likely Scenario £000	Worst Case Scenario £000
2011/12	2,086	2,771	3,527
2012/13	984	1,647	2,414
2013/14	1,583	2,168	3,257
2014/15	353	844	1,407
2015/16	397	976	1,454

The annual savings figures are based on the assumption that savings required for each of the previous years have been achieved in the base budget and not from use of balances.

At this early stage in the budget cycle the strategic projection, and therefore the level of savings required, will inevitably change according to changing requirements in council priorities, external factors and the progressive development of more accurate information with regard to the above assumptions.

It was noted that the strategic projection is intended to include the necessary resources to fulfil all developing partnerships and strategies. Any necessary changes to the strategic projection will be reflected in future budget strategy reports.

Key Risks

In developing the budget strategy over the following months a number of key risks must be addressed. These risks are identified in the strategic projections but constitute key risks for the council's financial stability and

are significant enough to be brought to Cabinet's attention individually.

The current revenue support grant (RSG) settlement will be formulated from the 2010 spending review to be completed by October 2010. In previous years this has been a three year indicative settlement. The previous three year settlement from 2007 was 0.5% per annum. In line with the Governments stated aim it is likely that there will be no change to the RSG formula over the forthcoming three years. There may be changes, in the longer term, as the resources required for some policies, such as a Council Tax freeze, have not yet been identified. In addition pre-election policies of the current Government included planned changes.

The Government has immediately made £6.2bn in savings across the public sector for 2010/11. The impact of these savings on local government directly totals £1.2bn and has come in the form of reductions in specific grants. The Council is expecting to receive £48.8m in specific grant in 2010/11 from central government and these are detailed in Appendix H of the report of Management Team. The affected specific grants for the Council are HPDG & LABGI, neither of which are detailed in Appendix H of the report of Management Team because they are awarded based upon in year performance. Decisions on how such grants are utilised by the Council are delegated to responsible Cabinet Members and are excluded from base budget.

It is likely that the Government will maintain this approach to savings and efficiency through specific grant in future years. Using two separate sources of information, two possible projections can be made:

- a) Although Government plans will not be known until the autumn, the Budget on 22nd June 2010 outlined the total spending reductions across the public sector as 25% of current expenditure. This target distributed across local government on the basis of all government grants would mean reductions of £0.8m.
- b) In addition research by Deloitte on behalf of the Local Government Association suggests a likely target of £750m across local government. This target, distributed on the basis of net revenue spend, would mean grant reductions of £0.4m for the Council.

Throughout 2008/09 and 2009/10 Cabinet received quarterly budget monitoring reports which consistently identified significant shortfalls in income generated through council services. Action taken by Cabinet and service management ensured that the consequences of the shortfalls was minimised. The economic downturn gave rise to the problems with income generation which still exist. The budget for 2010/11 includes strategic growth to control the ongoing effect on income. It is likely that the risk of further income shortfalls exists for the remainder of the medium term financial strategy. The 2010/11 strategy assumed further shortfalls of £0.1m in 2011/12 and a levelling of income at this reduced level for the remainder of the medium term.

The triennial review of the pension fund is expected to produce an increase in the value of the liability of the Council. The actuaries performing the review on behalf of Kent County Council are expected to

provide individual district council reports in November 2010. Until such time as the report is available a model has been provided by Kent County Council that predicts a range of possible outcomes from no increase to an increase of £1.2m.

The Capital Programme as agreed by Council in March 2010 is funded by a mixture of resources, the major elements being revenue support, capital receipts and grants/contributions from government and other institutions. As advised in 2009/10 Cabinet will be aware of the risks associated with the effects of the economic climate upon asset sales and the government's savings plans upon government grant.

The current economic indices and commentary suggests changes are appearing in the economy. These include initial measures of growth, rising inflation and a growing interest in property and land for development.

- a) For the first three quarters of 2009/10 RPI slowly rose from negative by December 2009, with the return to 17.5% VAT, RPI was over 2%, by March 2010 RPI had increased to .3%. The current year on year increase, for May 2010 shows a reduction to 3%;
- b) The Bank of England base rate remains at 0.5%. It first reached this low in March 2009. Interest rates were expected to rise slightly during 2009/10 but there has been no indication of this in the Council's investments;
- c) Economic growth is evident however the Office for Budget Responsibility has recently downgraded forecasts and predicts 2.6% growth in 2011.

Key Opportunities

The Council has a track record of successfully addressing key risks in the budget and it has a balanced budget for 2010/11 that is based on a sound budget strategy without the use of balances to fund current service costs. In addition the delivery of value for money is embedded in Council decision making through a number of strands of activity such as business transformation, invest to save funding, robust procurement, regular benchmarking, performance measurement and joint working.

Balances can be utilised for one time costs and Council has confirmed a minimum balance, below which Cabinet cannot go without renewed permission, of £2m. Cabinet has agreed a minimum working balance of £2.3m which is 10% of net revenue spend. Available balances above that limit are £0.7m uncommitted general balances and £1.7m from the VAT refund detailed in section 1.3.

The average council tax increase for 2010/11 was 1.8%. In recent years this has been a benchmark for potential capping. The Government has indicated its desire for no council tax increase in 2011/12. The 2010/11 medium term financial strategy assumed a 2.5% increase in council tax for the Council, valued at £0.3m. Although the Government has stated that it will provision any lost income it will, at best, be based on an

increase considered suitable to the government. The LGA bulletin on the Budget provides the following information regarding this freeze:

“The Chancellor announced that the Government will help councils to freeze or reduce council tax in 2011/12. The Budget documentation assumes that this help will be given assuming a loss of revenue to authorities of 2.9% - the average of the three years’ most recent council tax increases. The Government assumes that this will lead to a loss of revenue of £625m.”

In considering the possible options for Council Tax, Cabinet agreed to a 2.5% increase purely for the purpose of planning a strategy development.

Capital Programme

Appendix D of the report of Management Team shows the current Capital Programme, as agreed by Council in March 2010, and amended for slippage from 2009/10, as agreed by Cabinet in May 2010. As part of the process of developing the MTFs the programme for 2013/14 will need to be developed. At this stage no resources have been identified to support the programme beyond 2012/13 and the column for 2013/14 is set at zero.

The programme reported has been amended for changes to revenue contributions agreed as part of the carry forward of resources from 2009/10. In addition £1.9m is available from usable capital receipts carried forward from 2009/10. All other receipts and grants used in funding the programme are assumed values at this stage.

The capital receipts that have been assumed from asset sales relate to four assets currently being marketed. These are Armstrong Road Depot, 13 Tonbridge Road, 26 Tonbridge Road and Hayle Place.

The capital grants that have been assumed in the programme relate to a mix of annual grants for private sector housing work and specific grants from the Heritage Lottery Fund. Two grants in the programme are currently identified as specific risks. These are the Growth Point Grant and the Gypsy Site Grant.

The programme currently requires prudential borrowing in 2011/12 and 2012/13. The total borrowing currently planned is £2.6m. The Council has set a prudential borrowing limit of £4m and the planned borrowing is currently within this limit. Revenue resources to service £4m borrowing form part of the financial projections given at Appendix F of the report of Management Team.

These issues are subject to enhanced monitoring by officers in 2010/11 in recognition of the risks in the timing of funding. Cabinet will receive quarterly reports and part of the normal monitoring reports.

In addition to these monitoring procedures, the constitution and legislation provide further mechanisms for the control of projects within the programme. Examples include the constitution’s control over the

acceptance of tenders for projects within the capital programme and the legislative sanctions against expenditure incurred without appropriate resources being in place.

Consultation

It is normal practice to consider the options for budget consultation at an early stage each year. This year a separate report on options and costs will be presented to Cabinet in August 2010.

Timetable

Cabinet considered the timetable for the Budget Strategy. The updated timetable given below has enabled previous Cabinets to achieve full consideration of all issues in a timely manner.

Action	Date
Initial consideration by Cabinet, including reference to Corporate Services Overview and Scrutiny Committee.	14 July 2010
Consideration by Corporate Services Overview and Scrutiny Committee	3 August 2010
Detailed consideration by Cabinet Members of budgets, savings options, service enhancements and fees and charges	September to October 2010
Public Consultation	September to October 2010
Cabinet review of budget strategy including reference to Corporate Service Overview and Scrutiny Committee. Data updated by previous activity and external factors	22 December 2010
Consideration by Corporate Services Overview and Scrutiny Committee	10 January 2011
Reference back to Cabinet from Corporate Services Overview and Scrutiny Committee	12 January 2011
Approval by Cabinet Members	January to February 2011
Approval by Cabinet and reference to Council	9 February 2011
Approval by Council and setting of Council Tax	2 March 2011

Conclusions

The report of Management Team detailed a series of financial pressures on the medium term financial strategy for 2011/12 onwards. The most significant were:-

- a) Government plans to reduce public sector expenditure by 25%, which will impact the Councils resources through reduced Government Grant.

The estimated impact is £0.8m per annum;

- b) The triennial review of the pension fund which is expected to result in an increased cost to Kent employers. The estimated impact is £0.5m per annum;
- c) A number of national and local initiatives that require budget growth. These items are detailed in Appendix F of the report of Management Team.

The report identified a number of opportunities available to the Council to assist in reducing the financial pressures. These included:-

- a) Opportunity to benefit from financial support to maintain a Council Tax freeze in 2011/12;
- b) A two year public sector pay freeze reducing the level of inflation required;
- c) The full year effect of the Chief Executive's review of structure;
- d) Balances of £0.7m and other resources set aside for priorities of £1.7m from VAT refunds.

The capital programme contains a series of risks in relation to the resources available. These risks have been outlined in the report of Management Team and similar reports during 2009/10. The major risks relate to the delivery of some grants and advances and the timing and value of certain asset sales.

The situation outlined in the report of Management Team showed a significant level of financial pressure over the five year period of the strategy. The required level of efficiency and savings required to formulate a balanced budget in 2011/12 is in excess of £2m for all scenarios developed and is £2.7m for the most likely scenario.

Alternatives considered and why rejected

An alternative course of action would be for the Cabinet not to consider the initial Budget Strategy at this stage and to defer consideration of the issues to a later time in the financial year. However, based on practical experience of previous financial years, both the Cabinet and Officers have generally agreed that an early consideration of budget issues is beneficial in terms of forward planning. The flexibility of amending the Strategy as the year progresses has been acknowledged as an efficient method of delivery of a Strategy at the end of the timetable.

With reference to the specific issues and assumptions within the report of Management Team, it was inevitable that the Cabinet would need to take a view on these and assess, at this early stage, the impact in future years. It was the purpose of the report of Management Team to initiate discussion and to facilitate the opportunity for the Cabinet to raise issues and to include other issues in their initial projection. Regular updates will

be presented to future meetings of the Cabinet to reflect discussions at this meeting and future meetings.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Change and Scrutiny by: **23 July 2010**