Maidstone Borough Council

Medium Term Financial Strategy 2010 Onwards

Index	**Page**

Introduction

This financial strategy aims to support the council's corporate objectives as identified in the strategic plan 2010 onwards. Whilst achieving this, major issues relating to resources and facing the council in the medium term will also be highlighted.

The intention is to set out the revenue and capital spending plans of the council at a high level. The success of these plans will depend upon the resources available to the council, the approach taken to ensure that these resources are aligned over the medium term to reflect corporate objectives and these resources being controlled in a way that ensures long-term stability.

In recent years the Government's approach to financial management in local government is to focus upon three year financial commitments. These include three year grant projections and three year comprehensive spending reviews and efficiency targets. The approach of this strategy will therefore be to develop a plan for a three year period with a further two years considered where the three year plan has a material impact on those years.

Although this document is developed for the medium term with an outlook from three to five years, the council will review the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. This review will be completed to coincide with the annual review of the three year strategic plan. This will enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key objectives (SPKO). Production of this document and the balanced budget it facilitates are a key objective of the strategic plan in their own right (see SPKO: 21).

In addition the council will consult with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

Revenue

Expenditure

The portfolio budgets in the full revenue estimates include detailed proposals for dealing with financial pressures and service demand, this strategic plan adopts a high-level review of the corporate objectives and budget pressures over the five-year period. This approach ensures a focus on factors that may influence the Council's stated aim to maintain working balances and ensure that they are used for specific and special activities and not to balance the budget. The financial projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Cabinet.

Pay and price inflation:

The financial projection makes an allocation for pay increases on an annual basis. This increase must allow for a staff pay award, any incremental increases earned through competence appraisal and any increase in employer contributions such as national insurance.

Other costs will need to consider a suitable inflation index. Large elements of this cost will be tied to conditions of contracts which will specify the annual increase necessary, other costs will increase by the annual increase in an inflation index such as the retail price index or the consumer price index.

Table 1 below details the factors used for each year.

Strategic Issue	**2010/11 %**	**2011/12 %**	**2012/13 %**	**2013/14 %**	**2014/15 %**
Pay Inflation	1.0	1.0	2.0	2.5	2.5
Other Costs Inflation	0.0	1.0	2.0	2.5	2.5
Contractual Commitments	1.0	1.0	2.0	2.5	2.5

[Table 1: Pay & price Indices]

Corporate objectives and key priorities:

In addition to these inflationary pressures the Council will develop and implement improvements to the corporate objectives identified in the strategic plan, and where significant any local objectives identified in service plans.

The financial projection will also provide, where necessary, resources for national statutory responsibilities where these are to be provided locally.

Table 2 below identifies the links between the financial projection and key objectives.

SP KO	Strategic Issue	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
-	National Concessionary Fares.	200	150			
12.1	Refuse & Recycling	115			300	
19, 20	Local Development Framework		400			
3, 6, 8, 18	Revenue Provision for Borrowing		150	150	159	
17, 14	Leisure Centre	275	155			
5	Park & Ride	200				

[Table 2: Strategic Issues, links to other documents]

Funding

Resources available for the revenue budget are heavily constrained making the issue key to the financial planning process. The financial projection assumes that resources are maximised. The strategy identifies three separate categories of resource government grant, locally derived income from fees and charges and council tax. Where the financial projection includes the use of fixed term grant or income sources each portfolio is responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

Government Grant:

The current revenue support grant settlement comes under the three year notification commencing in 2007 is an increase of 0.5% for 2010/11. This three year notification ended with the 2010/11 notification and the future level of grant settlements is in doubt due to the national economy and public sector debt levels. Clarity on this issue is expected as a result of the comprehensive spending review 2010 expected in July 2010. Current indicative information available suggests a medium term need for extensive real term reductions in government support. A district council can expect to see support going to services provided elsewhere in the public sector and a projection of a 15% cut in the medium term is expected. The financial projection assumes a reduction in grant of 5% per annum.

Other grants received from the government are similarly under threat from the effects of the national economy and the efficiency agenda as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only consider the freezing of such grants at their 2009/10 cash values unless further data is available. Table 4 identifies expected variances from this assumption.

Fees & Charges

The Council has a policy on the development of fees and charges that fall within its control. This policy ensures that an evaluation of market forces and links to the strategic plan or service plans are drivers of change in prices. This means that any increases in this funding source will be identified through each portfolio's detailed budget preparation work. At the level of this strategy the assumption is that in overall terms the increase will be commensurate with general inflation. Due to the final effects of the recession, for 2010/11 the financial projection will assume total cash income is frozen at 2009/10 values but will increase slowly in response to the predicted end to the recession.

Council Tax

The Council has a responsive approach to the level of Council tax and will set this at an appropriate level commensurate with the needs of the strategic plan. It has set a policy in recent years of an increase that avoids the threat of council tax capping but remains flexible on the level of that increase, thus focusing the strategy on its ability to set a balanced budget.

Table 3 below details the factors used for each resource type and Table 4 details the links between the financial projection and the major risk factors.

Strategic Issue	**2010/11 %**	**2011/12 %**	**2012/13 %**	**2013/14 %**	**2014/15 %**
Revenue Support Grant Increase	0.5	-5.0	-5.0	-5.0	-5.0
Fees & Charges Increase	0.0	1.0	2.0	2.5	2.5
Council Tax Increase	2.5	2.5	2.5	2.5	2.5

[Table 3: Resource and income indices]

SP KO	**Strategic Issue**	**2010/11 £,000**	**2011/12 £,000**	**2012/13 £,000**	**2013/14 £,000**	**2014/15 £,000**
21	Housing Benefit Admin Grant	80	40	40	40	40
4	Homelessness Strategy Grant		35	30		
21	Parking Income	50	50	50	50	50
21	Interest on Investments	370	150	100	50	
21	Income Generation	250	100			
14	Cobtree Charity	130	20			

[Table 4: Strategic Issues, links to other documents]

Capital

Programme

The strategy for the capital programme requires consideration of two issues, the scheme specifics and the overall programme.

The overall programme is considered in terms of the prudential borrowing principles of sustainability, affordability and prudence. The overall programme assessment also considers the relative priority of schemes as they enhance the provision of corporate or service based objectives.

The inclusion of capital schemes within the overall programme requires an assessment based on affordability in revenue and capital terms and deliverability in terms of ability to complete, whole life cost and risk assessment.

Prioritisation of schemes will occur in the following order:

a) For statutory reasons;
b) Fully or partly self funding schemes with focus on corporate objectives;
c) Other schemes with focus on corporate objectives;
d) Maintenance / Improvement of property portfolio not linked to corporate objectives;
e) Other non priority schemes with a significant funding gearing.

The programme for the period 2010/11 to 2012/13 focuses on a series of key projects reflecting the strategic plan and a series of projects providing investment in the property assets. The detailed Capital programme provides the link between the strategic plan key objectives and the current programme

The capital programme is a three year programme and Table 5 below summarises the 2010/11 to 2012/13 programme by portfolio. This table incorporates the programme for 2009/10 for information.

Portfolio	2009/10 £,000	2010/11 £,000	2011/12 £,000	2012/13 £,000
Leader	26	0	0	0
Community Services	331	81	81	50
Corporate Services	351	370	370	330
Environment	1,011	0	0	0
Leisure & Culture	2,703	4,147	3,129	680
Regeneration	9,451	4,618	5,257	3,070
	13,874	9,216	8,837	4,130

[Table 5: Capital programme]

Funding

Since 2004 the Council has been debt free and the major sources of funding for capital expenditure has come from capital receipts and government grant. The medium term financial strategy has, in the past, identified the time when such resources would reduce to the point where alternative funding would be required to support a continued programme of capital expenditure. The most recent strategy identifies that the most likely need for immediate funding will occur in 2011/12.

Previously the strategy required that where funding is based upon the use of capital receipts, that those receipts were received prior to capital commitments being made. The strategy can no longer maintain this commitment, a combination of economic conditions leading to low levels of asset sales and the use of the reserves of usable capital receipts means that the current strategy accepts funding from in year receipts. This assumption can only be maintained up to the level of the Council's prudential borrowing limit as set in the Prudential Indicators. The quarterly monitoring of the capital programme enables Cabinet to take effective decisions based on current levels of funding before major projects commence.

Table 6 below identifies the current funding assumptions and the minimum level of prudential borrowing.

Funding Source	2009/10 £,000	2010/11 £,000	2011/12 £,000	2012/13
Confirmed:				
Capital receipts	7,801	423	0	0
Capital grant	4,774	4,905	2,541	829
Revenue	1,299	1,043	630	630
Assumed:				
Capital receipts		2,845	4,000	0
External funding			400	900
Prudential Borrowing			1,266	1,771
	13,874	9,216	8,837	4,130

[Table 6: Capital financing, confirmed and assumed]

Reserves

The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances or events. In setting the level of these balances and reserves an assessment is made of the potential risks and opportunities that could reduce or enhance those balances.

All revenue balances at 1st April 2009 total £7.2m and it is estimated that this balance will be £3.6m by 1st April 2010. The major items reducing the balance are approved budget carry forwards of £2.1m from 2007/08 and 2008/09 resources into 2009/10 for prior agreed purposes and support for cost to the Council of work on the Kent International Gateway of £0.8m with the remainder being minor use of balances agreed in the 2009/10 strategy.

The balances comprise a general balance and a series of specific allocations the breakdown of these is given in Table 7 below.

Balances	**01/04/2009 £,000**	**01/04/2010 £,000**	**01/04/2011 £,000**
General balance	5,601	2,704	2,449
Trading account surpluses	30	30	30
Asset replacement	110	7	47
Invest to save initiatives	579	551	539
Local development Framework	884	353	0
Total	7,204	3,645	3,065

[Table 7: Revenue balances]

Available capital receipts at 1st April 2009 total £7.6m and it is estimated that this balance will be used up during the period from 2009/10 and 2010/11.

Other capital balances include grants and contributions unapplied which total £3.3m at 1st April 2009. These balances are, in most cases, received for specific schemes and applied to finance those schemes specifically.

Efficiency

The council's strategic plan has a place with efficient and effective public services as a priority theme. This theme runs through service plans and is one of the five values to which the Council subscribes. Through this theme the Council's approach to efficiency is integrated in to all decision making.

The Council has successfully achieved all its government set efficiency targets and hopes to achieve the latest target figures as set for 2009/10 onwards. The current efficiency gains, since the commencement of the "Gershon" targets equals £2.9m.

The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:

a) Annual best value reviews performed by officers and by members.
b) The Kent wide VFM price book. A benchmarking tool to measure unit cost and performance levels and compare these over time and across Kent.
c) Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
d) The identification of efficiency targets that match the government's requirements over the period of this medium term financial strategy.

Efficiency proposals are carefully measured for effect upon capacity, acceptable levels of service, quality standards, and the potential of shared service provision. All efficiency proposals consider the effect of fixed costs and the effect on the base financial standing of the Council and the opportunity for reinvestment of gains into priority services or toward achievement of corporate objectives.

The adoption of efficiency and VFM as part of this strategy helps to ensure that the financial projection will remain within available resources.

The financial projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 8 below details the required saving for each year, based on the factors used in the financial projection, and the percentage of net revenue spend the given saving represents.

Strategic Projection	**2010/11 £,000**	**2011/12 £,000**	**2012/13 £,000**	**2013/14 £,000**	**2014/15 £,000**
Annual Savings Requirement	1,604	1,992	892	1,251	1,083
Percentage Saving	7.00%	8.77%	3.93%	5.52%	4.77%

[Table 8: Annual savings requirement]

The savings identified for 2010/11 equate to the required £1.6 million. In general they are identified in areas where efficiency meets the requirements of the strategic plan. This is either through areas of low strategic priority or focused issues such as productivity.

The 2010/11 savings of £1.6m include reductions in staffing levels of over £0.7m and in total identify efficiency in services totalling £1m.