

**Medium Term Financial Strategy 2024/25-2028/29 –
Initial Scoping and Assumptions**

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

Executive Summary

This report sets out the background to be considered in updating the Medium Term Financial Strategy (MTFS) and rolling it forward to cover the five-year period 2024/25 to 2028/29. It describes the issues and risks involved, starting with the Council’s current financial position, and sets out the key assumptions to be made in determining the strategy. The report concludes by setting out the subsequent steps involved in developing an updated MTFS and agreeing budget proposals for 2024/25.

This report makes the following recommendations to the Corporate Services Policy Advisory Committee.

That the Cabinet is recommended to:

1. Note the issues and risks associated with updating the Medium Term Financial Strategy.
2. Approve the assumptions described in this report for planning purposes and to establish the remit for detailed budget development, in particular the assumptions set out in paragraphs 2.21 (Council Tax increases), 2.30 (Fees and Charges) and 2.40 (Housing Investment Fund).
3. Approve the proposed approach outlined to development of an updated Medium Term Financial Strategy for 2024/25 – 2028/29 and a budget for 2024/25.

Timetable

Meeting	Date
Corporate Services Policy Advisory Committee	12 July 2023
Cabinet	26 July 2023
All Policy Advisory Committees	September 2023
Overview & Scrutiny Committee	19 September 2023
Cabinet	20 September 2023

Council	21 February 2024
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Medium Term Financial Strategy 2024/25-2028/29 – Initial Scoping and Assumptions

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The MTFs supports the cross-cutting objectives in the same way that it supports the Council's other strategic priorities.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 5 of the report.	Section 151 Officer & Finance Team
Financial	The budget strategy and the MTFs impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Section 151 Officer & Finance Team
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFs and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Senior Legal Advisor
Information Governance	Privacy and Data Protection is considered as part of the development of new budget proposals. There are no specific implications arising from this report.	Section 151 Officer & Finance Team
Equalities	The MTFs report scopes the possible impact of the Council's future financial position on service delivery. When a policy, service or function is developed, changed or reviewed, an evidence based equalities impact	Equalities and Communities Officer

	assessment will be undertaken. Should an impact be identified appropriate mitigations will be identified.	
Public Health	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Crime and Disorder	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Biodiversity and Climate Change	<p>Sufficient resources to begin decarbonising MBC buildings have been allocated for 23-24 financial year, with officers seeking to bid for the Public Sector Decarbonisation Scheme funding to support MBC achieve Net Zero.</p> <p>The resources to achieve the Council's Net Zero commitment by 2030 for its own operations have been estimated as part of the Biodiversity and Climate Change Action Plan Update and will need further investigation and integration into the Long Term Financial Strategy.</p>	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 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 adopted a Strategic Plan for the period 2021 – 2045 in December 2018, and the existing MTFS for the period 2023/24 to 2027/28 reflects the Strategic Plan. The new MTFS will continue to reflect the Strategic Plan priorities.
- 2.2 A key outcome of the process of updating the MTFS is to set a balanced budget and agree a level of council tax for 2024/25 at the Council meeting on 21 February 2024. This report is the first step towards achieving that objective.

Current Financial Position

- 2.3 A key element in developing the Medium Term Financial Strategy is a consideration of Maidstone's current financial position. This section sets out

the current revenue spending position, given the final outturn for the 2022/23 financial year and the agreed budget for 2023/24.

- 2.4 The outturn for 2022/23 was an underspend of £212,000 (0.9%) against the budget. Overspends, most significantly on temporary accommodation for homeless families, were more than offset by underspends elsewhere, arising mainly from better than budget performance on income generation and from staff vacancies. See table below.

Service	Budget £000	Actual £000	Variance £000
Economic Development	620	720	-100
Planning	2,112	2,444	-332
Parking	-1,410	-1,865	455
Mid Kent Services	3,306	3,456	-150
Corporate Services (excl MKS)	7,589	6,814	775
Housing & Health	2,726	3,711	-985
Environmental Services	6,874	6,364	510
Communities, Leisure & Arts	1,414	1,375	39
Total	23,231	23,019	212

Table 1: 2022/23 Revenue Outturn

- 2.5 The capital programme underspent by a large margin. The main reason was a lack of acquisition opportunities at suitable prices in both residential property (for the temporary accommodation purchase and repair programme) and commercial property. The underspends will be rolled forward and added to the budget for 2023/24.

	Budget £000	Actual £000	Variance £000
Affordable Housing	8,260	4,961	3,299
Private Rented Sector	3,041	2,391	650
Temporary Accommodation	4,330	451	3,879
Disabled Facilities	1,640	1,228	412
Housing - Other	1,721	1,328	393
Environment	1,599	921	678
Communities, Leisure & Arts	2,166	2,347	-181
Planning & Infrastructure	341	268	73
Corporate Services	9,535	2,440	7,095
Total	32,633	16,335	16,298

Table 2: 2022/23 Capital Outturn

- 2.6 The conclusions to be drawn from the performance of the Council on revenue and capital in 2022/23 can be summarised as follows.

- The Council is effective in managing financial performance. This is underpinned by regular quarterly meetings at which Heads of Service are

held to account for performance against budget and reporting of quarterly financial performance to Policy Advisory Committees and the Executive.

- There continue to be budget risks, particularly around temporary accommodation. An additional £600,000 has been built into the budget for temporary accommodation for 2024/25, but this may still not be adequate given the level of demand.
- Capital programme slippage avoids financing costs, but equally will lead to a delay in the investment returns anticipated from future capital expenditure.

Issues for future financial projections

- 2.7 CPI inflation is currently (May 2023) running at 8.7%. Whilst the Bank of England's core projection is for a reduction to the target level of 2% by the end of 2024 (see figure below), its projections have consistently been over-optimistic and there is a high likelihood that inflation will remain around 5% for some years to come.

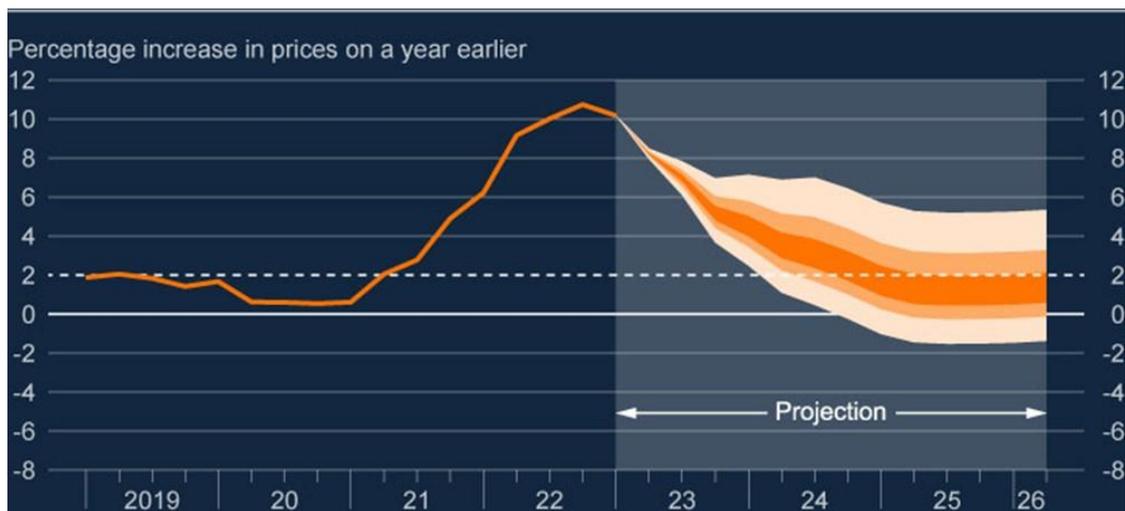


Figure 1: CPI inflation projection

Source: Bank of England Monetary Policy Report, May 2023

- 2.8 The implications for the Council are very significant, given the constraints on its capacity to increase revenues to offset increases in prices. See figure below, which shows Council revenues as compared with the cost of services.

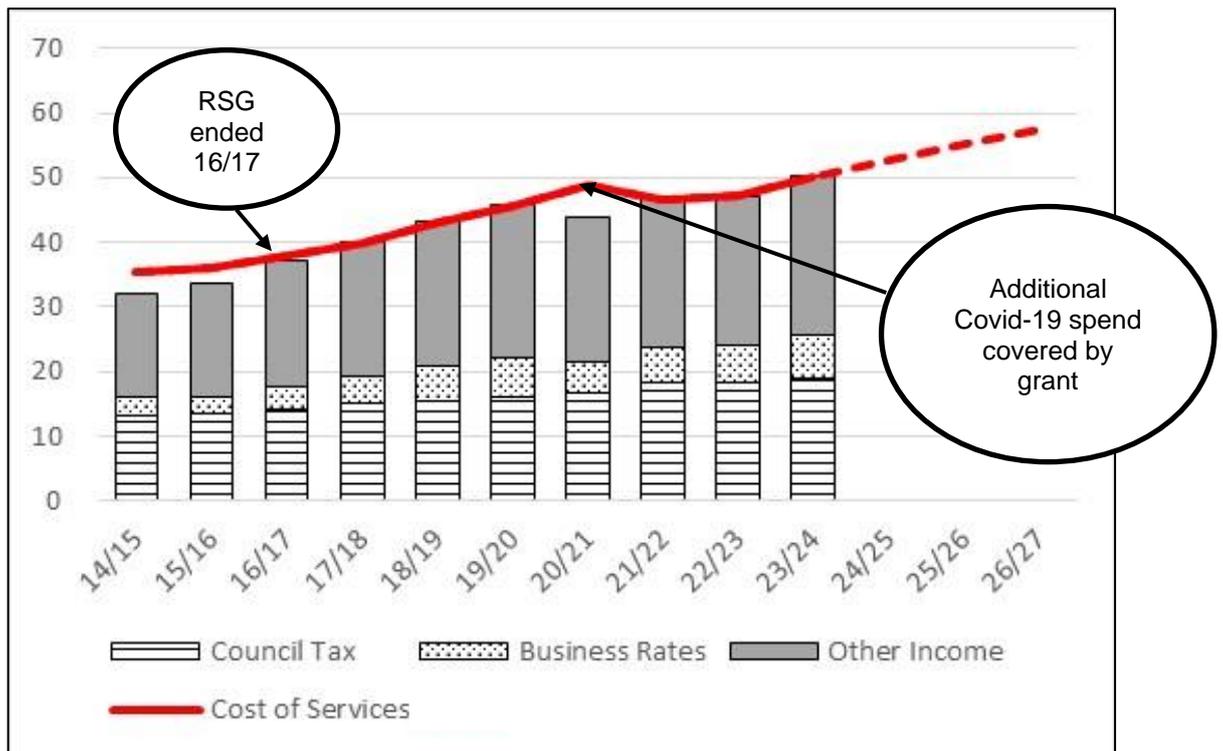


Figure 2: Revenue Funding Trends

- 2.9 Maidstone Borough Council is largely self-sufficient financially: as shown in the figure above, locally generated sources of income (Council Tax, Business Rates and Other Income) cover most of the Council’s cost of services. Direct unringfenced government support in the form of the Revenue Support Grant ended in 2016/17, although additional support was provided by government subsequently to assist with additional Covid-19 spend.
- 2.10 The local authority funding framework set by government remains a crucial determinant of the Council’s future financial position. This is primarily because (a) central government restricts the amount by which Council Tax can be increased and (b) it determines the share of business rates that can be retained locally. The Council is therefore severely constrained in its capacity to increase revenues in response to increased costs.
- 2.11 At this stage we do not have any clarity about the Council Tax referendum limit, the Business Rates baseline and any other grants such as New Homes Bonus for 2024/25. The usual pattern whereby the local government finance settlement is announced just before Christmas suggests that we will not have any definitive figures until late December. However, for planning purposes and to advance the budget setting process it is essential to make prudent assumptions about likely government announcements. Details of key assumptions are set out in paragraphs 2.15 - 2.32 below.

Scenario Planning

- 2.12 As Maidstone’s financial position is so dependent on government policy and on broader economic factors such as inflation, neither of which can be predicted with any certainty, it is appropriate to model the impact of different scenarios on the Council. Following a similar approach to that

adopted when developing the current 2023/24 – 2027/28 Medium Term Financial Strategy, the following four scenarios can be sketched out.

Scenario 1: Inflation falls, limited funding flexibility

The rate of price inflation falls in line with BoE forecasts, but government maintains existing constraints on local government finances in order to reduce debt and create capacity for tax cuts.

Scenario 2: Inflation falls, some funding flexibility

Inflation falls in line with BoE forecasts, and government adopts more accommodative local government finance settlements to help councils address demand pressures.

Scenario 3: Inflation remains elevated, some funding flexibility

Inflation only reaches the target level of 2% at the end of the MTFS planning period. Owing to the continued high level of inflation, government relaxes constraints on local government finances to allow council services to be protected.

Scenario 4: Inflation remains elevated, limited funding flexibility

Inflation only reaches the target level of 2% at the end of the MTFS planning period, but government maintains the existing level of constraints on local government finances.

Scenario 4 is the most challenging of those sketched out above, as it represents a combination of continued high inflation and tight constraints on the Council's revenue raising capacity. For planning purposes, we consider it prudent at this stage to adopt Scenario 4. However, the other scenarios will be modelled and the implications considered when developing the detailed Medium Term Financial Strategy.

Strategic Revenue Projection

2.13 In drawing up financial projections, assumptions need to be made about what future scenarios might mean. The key dimensions are:

- (a) the Council Tax base;
- (b) the level of Council Tax;
- (c) retained Business Rates, which in turn depends on overall business rates and government policy on distributing Business Rates income;
- (d) other local income, eg fees and charges;
- (e) the cost of service delivery, which is subject to the effect of inflation on input prices.

Each of these is considered in more detail below.

Council Tax base

- 2.14 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.
- 2.15 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. See table below:

Table 3: Number of Dwellings in Maidstone

	2018	2019	2020	2021	2022
Number of dwellings	70,843	71,917	73,125	75,034	76,351
% increase compared with previous year	1.74%	1.52%	1.68%	2.61%	1.76%

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

- 2.16 The Council tax base is also affected by collection rates and the number of households benefitting from the Council Tax Reduction Scheme. Typically these factors do not vary significantly between years but in the event of a major downturn in the economy, collection rates could be expected to fall and more households would be eligible for the Council Tax Reduction Scheme.
- 2.17 Future growth assumptions for each scenario are set out below.

Council Tax base growth assumptions					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	1.5%	1.5%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	1.5%	1.5%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	1.5%	1.0%	1.0%	1.0%	1.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	1.5%	1.0%	1.0%	1.0%	1.0%

Level of Council Tax

- 2.18 The level of council tax increase for 2024/25 is a decision that will be made by Council based on a recommendation made by the Cabinet. In practice, the Council’s ability to increase the level of council tax is limited by the need to hold a referendum for increases over a government set limit. In 2023/24, the limit was 3%. The Council approved the maximum possible increase. The rationale for this approach was that:

- pressures on the Council’s budget mean that even a marginal difference in Council Tax income is of value;
- the referendum limit might revert to a lower level in later years;
- because the starting point for calculating the referendum limit in any given year is the previous year’s Council Tax, agreeing a lower increase reduces the Council’s room for manoeuvre in later years.

2.19 Given that CPI inflation was 8.7% for the year to May 2023, it is hard to see the referendum limit being reduced from the current level of 3%. A prudent assumption (Scenario 4) would therefore be that the referendum limit will be 3% in 2024/25, but after the General Election that is due to take place by January 2025, the government will seek to bear down on inflation by restricting the limit to 2%, being the target level of inflation¹.

2.20 Future growth assumptions for each scenario are set out below.

Council Tax increase assumptions					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	3.0%	2.0%	2.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%

2.21 **Regardless of the actual level of the Council Tax referendum limit, owing to the expected inflationary growth in the cost of services, it is proposed that a key MTFs assumption is that Council Tax increases are maximised within the constraints of the referendum limit.**

Retained business rates

2.22 Under the current business rates regime, local government in aggregate retains 50% of business rates income. However, most of the 50% share collected locally is lost to Maidstone, because it is redistributed to other authorities through a system of tariffs and top-ups.

¹ The Leader of the Labour Party announced in March 2023 that a Labour government would freeze Council Tax in 2024/25, using the proceeds of a windfall tax on oil and gas companies. Presumably this means that central government would reimburse local authorities with an amount equivalent to that by which they would have increased tax locally.

Table 4: Baseline Business Rates Income 2023/24

	£000	%
Baseline Business Rates income	62,333	100
Government share	-31,166	-50
Kent County Council / Kent Fire & Rescue Authority	-6,233	-10
Government tariff	-21,551	-35
Baseline Business Rates income retained by MBC	3,382	-5

To the extent that business rates income exceeds the baseline, this growth element is retained locally, subject to a levy payable to central government by tariff authorities like Maidstone.

- 2.23 The Council has been able to minimise the levy payable on business rates growth through its membership of the Kent Business Rates Pool. This is because the levy payable by some pool members (district councils) is offset against the top-up received by the major preceptors (Kent County Council and Kent Fire and Rescue).
- 2.24 Business rates pool income is allocated, in accordance with the Pool Memorandum of Understanding between Kent authorities, as follows.

Maidstone Borough Council – used for specific projects that form part of the Economic Development strategy. £250,000 of this amount is top-sliced in the budget for ED salaries and spatial planning.	30%
Growth Fund – In Maidstone this is split 50:50 between MBC and Kent County Council for the regeneration of the Town Centre and is deployed at Maidstone East and Sessions House / Invicta House respectively.	30%
Kent County Council	30%
Contingency - To compensate Kent local authorities who do not benefit directly from pool membership (eg because their business rates growth is lower than the baseline)	10%

- 2.25 There are a number of factors affecting the future pattern of business rates income:
- Government uses the share of business rates that local authorities are allowed to retain as a mechanism for directing resources towards the areas of perceived need (hence Maidstone, as a relatively prosperous area, only retaining 5% of baseline business rates). This resource allocation has remained broadly unchanged since 2014, when the current local government funding system was introduced, but a 'fair funding review', which will update the resource allocation, has been mooted for several years. In practice it is now unlikely to be implemented before 2026/27.
 - The government share of business rates and the tariff (see Table 4 above) are fixed £ amounts, based on a predetermined business rates baseline. This has benefited the Council over the past ten years, as the rate of business rates growth has been greater locally than general price

inflation, and the Council has benefited from this excess growth. However, the reverse could be the case if there is a downturn in total business rates income.

- As part of any change to the funding system, the business rates baseline is expected to be adjusted. This will give a higher baseline for the Council, with the result that the accumulated business rates growth of the past ten years, which (subject to the levy) is currently retained locally, would be lost.

2.26 These factors are generally likely to have an adverse impact on business rates income. However, the government has indicated that changes such as implementation of the fair funding review and a revision of the baseline would be implemented over a period of time, dampening any immediate adverse impact.

2.27 Future growth assumptions for each scenario are set out below.

Business rates growth assumptions					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	-2.0%	-2.0%	-2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	0.0%	0.0%	0.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	3.0%	0.0%	0.0%	0.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	2.0%	-2.0%	-2.0%	-2.0%

Other income

2.28 Other income, in aggregate, is now a major contributor to the Council’s total revenue budget. The main components of other income are set out below:

Table 5: Projected Other Income 2023/24

	£ million
Fees and charges	10.5
Property rental income	7.1
Shared services trading income	3.7
Other income	2.8
TOTAL	24.1

The Council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. Given the current inflationary environment, it is important to target an appropriate overall increase in the amount of fees and charges to mitigate the expected increase in the Council’s input costs. The alternative would be for the Council to have to make further savings, potentially reducing the level of services that it provides to residents.

- 2.29 Note that some fees and charges are set by central government and are not necessarily increased annually. Property rentals may only change at the point of periodic rent reviews.
- 2.30 Future growth assumptions for each scenario are set out below. These correspond to the inflation level projected for the respective scenarios, on the basis that it is reasonable to expect income to increase in line with expenditure. **It is proposed that a key MTFS assumption is that overall income from fees and charges increases in line with expected increases in the Council's cost of services.**

Other income growth assumptions					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%

Cost of services

- 2.31 The cost of services is subject to inflation. Service cost increases tend to lag behind published inflation indices, but they are likely to follow the same pattern. Salaries account for around 50% of total input costs, and market pressures are likely to mean that inflation will impact salaries in the medium term. Many other costs, in particular contract costs, are directly linked to inflation indices.
- 2.32 As described above, there is considerable doubt about whether inflation will fall as quickly as official forecasts suggest. Accordingly, the preferred scenario 4 adopts a more prudent approach than simply following the Bank of England forecast.

Cost of services growth assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%

For the purposes of detailed budget planning, a more granular approach is taken to forecasting budget growth, and specific percentages are applied to the different categories within cost of services.

Capital Programme

2.33 The capital programme plays a vital part in delivering the Council’s strategic plan, since it is only through long term investment that our ambitions for the borough, in particular the 1,000 Affordable Homes programme, can be realised. The capital programme has an impact on revenue, because of the cost of borrowing and the annual charge (Minimum Revenue Provision – MRP) that the Council is required to make to set aside sufficient money to fund the repayment of borrowing.

2.34 The profile of the current five year capital programme is as follows.

Table 6: Capital Programme 2023/24 – 2027/28

	23/24	24/25	25/26	26/27	27/28	Total
	£000	£000	£000	£000	£000	£000
Affordable Housing	6,123	20,080	22,825	25,487	22,442	96,958
Social Housing Grant	-5,790	-3,120	-1,290	-8,250	-6,060	-24,510
Private Rented Sector	3,090	6,765	6,832	9,578	6,861	33,125
Temporary Accommodation	12,000	12,000	8,000	0	0	32,000
Disabled Facilities	800	800	800	800	800	4,000
Housing – Other	675	1,325	974	543	100	3,616
Environment	6,970	880	730	580	590	9,750
Communities, Leisure & Arts	4,329	3,700	3,350	1,000	1,000	13,379
Planning & Infrastructure	206	0	0	0	0	206
Corporate Services	10,514	7,280	5,423	5,249	4,903	33,369
Total	38,917	49,710	47,644	34,986	30,636	201,893

2.35 As the level of investment increases, the revenue cost of borrowing increases. Ultimately this is offset by income, to the extent that capital schemes generate income, eg in the form of housing rents. However, there is a period during which capital schemes need to be funded before they start to generate income.

2.36 There are a number of risks associated with the capital programme which potentially will impact the revenue account, to the extent that capital expenditure is abortive or leads to the write-down of capital investments:

- Construction price

- Contractor failure / liquidation
 - Availability / cost of finance (currently the Council has arranged £80 million of funding, but the availability and cost of finance when this is exhausted is not known).
- 2.37 Finally, there is a specific requirement in relation to the Affordable Housing programme to provide the necessary subsidy for tenants. The requirement for a subsidy arises because affordable housing (ie housing to be let at a rent of no more than 80% of the Local Housing Allowance) does not achieve the normal rate of return that is required on Council investments to satisfy the prudential borrowing rules.
- 2.38 In order to avoid the Council facing an ongoing revenue burden from subsidising affordable housing tenants, and to avoid setting deficit budgets in the Housing Revenue Account (HRA) when it is established, it is assumed that a capital sum of around £50,000 per unit must be set aside as a lump sum subsidy for each unit of affordable housing. Note that there are strict rules about the HRA ringfence, above all the fact that the HRA cannot set a deficit budget. The lump sum must be set aside **before** housing units are transferred into the HRA. Otherwise, the HRA would run a deficit for every unit of housing transferred in, because of the excessive cost of funding housing stock that is transferred into it.
- 2.39 If the target of 1,000 affordable homes is to be achieved over a ten year period, the Council needs to set aside funds now to provide the necessary subsidy. An opportunity to provide this subsidy, without impacting core revenue spending, is available thanks to the government's continued deployment of one-off resources each year to local authorities in the form of New Homes Bonus and Services Grant. In 2022/23, an initial tranche of £3.2 million was earmarked from New Homes Bonus and transferred to a Housing Investment Fund. Although there is no assurance that such grants will continue to be available into the future, if the Council is to provide affordable homes as part of its capital programme, it needs to maximise the amount of one off resources, eg New Homes Bonus and Services Grant, that are transferred into the Housing Investment Fund. Note that there is a risk that New Homes Bonus will reduce in future, as housing growth falls.
- 2.40 **It is proposed that a key MTFS assumption is that one-off resources such as New Homes Bonus and Services Grant are earmarked for the Housing Investment Fund.**

Reserves

- 2.41 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 £4 million as the minimum General Fund balance.
- 2.42 In addition to uncommitted General Fund balances, the Council holds reserves that are earmarked for specific purposes. Full details of reserves held are set out below:

Table 7: General Fund balances as at 31 March 2023

	31.3.22 £000	31.3.23 £000
Earmarked Reserves		
Spatial Planning	0	559
Housing Investment Fund	0	3,216
Neighbourhood Plans	97	77
Planning Appeals	286	229
Civil Parking Enforcement	400	370
Future Capital Expenditure	2,426	2,455
Future Funding Pressures	969	2,269
Housing Prevention & Temporary Accommodation	1,279	1,124
Business Rates Earmarked Balances	3,681	3,529
Funding for future collection fund deficits	10,284	0
Commercial Risk Reserve	500	500
Invest to Save Reserve	500	500
Recovery and Renewal Reserve	778	575
Renewable Energy	119	188
Enterprise Zone	4	0
Major Works Sinking Fund	0	213
Resources carried forward from 2021/22 to 2022/23	1,184	0
Resources carried forward from 2022/23 to 2023/24	0	200
Sub-total Earmarked Reserves	22,508	16,005
Unallocated Balances	11,362	11,386
Total General Fund balances	33,870	27,390
Total General Fund balances excluding Collection Fund deficits	23,586	27,390

2.43 The unallocated balances exceed the £4 million minimum. They are equivalent to around 20% of the gross revenue budget, which is comfortably 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.

Revenue Projections

2.44 Strategic revenue projections for scenario 4 are summarised in table 8 below. In light of the many uncertainties around future funding, it is important to note that projections like these can only represent a 'best estimate' of what will happen. These projections will be updated as more information becomes available, prior to a final version of the projections being included in the updated Medium Term Financial Strategy.

Table 8: MTFS Revenue Projections 2024/25-2028/29

	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m
Scenario 4					
Total Resources	53.7	54.7	56.4	58.5	60.2
Predicted Expenditure	55.3	59.2	61.0	61.9	62.7
Budget Gap	1.6	4.5	4.6	3.4	2.5
Existing Planned Savings	0.7	0.0	0.2	0.1	0.1
Savings Required	0.9	4.5	4.4	3.3	2.4

2.45 Note that all these assumptions assume that Council Tax income is increased by the maximum possible given the referendum limit, and fees and charges are increased in line with inflation. In all cases, the budget gap would be greater if these measures were not taken.

	£000
'Do nothing' budget gap	2,023
Increase Council Tax by 3%	-573
Increase Other Income by 5%	-525
Budget gap per Strategic Revenue Projection	<u>925</u>

2.46 It is proposed that within the Medium Term Financial Strategy it is assumed that Council Tax is increased by the maximum possible, which in Scenario 4 is 3%; and that in order to deliver a 5% increase in other income, fees and charges are increased appropriately. To the extent that individual categories of fees and charges are not increased by this amount, compensating additional increases will be found elsewhere.

2.47 In seeking areas where there may be potential for making savings, it is worth comparing the Council's most recent spending data with those of its peers – the other district Councils of Kent. This is not to imply that this Council is over-spending or under-spending in particular areas. Rather, it is intended to put our allocation of expenditure against the different priorities in context.

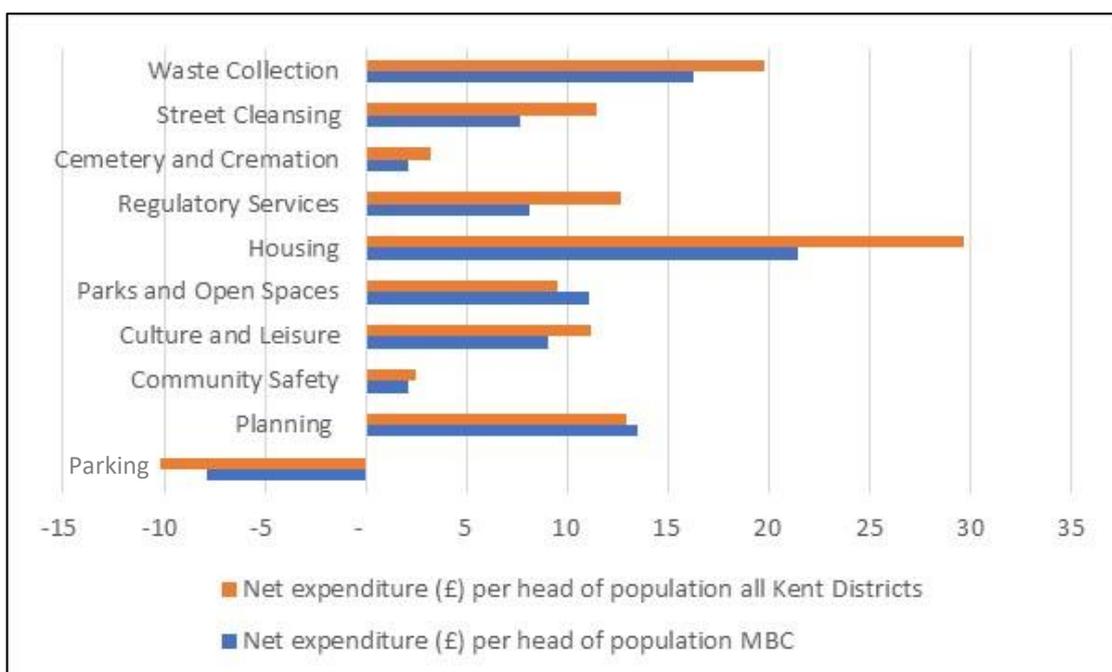


Figure 3: Expenditure per head of population

Source: Local Authority 2021/22 Revenue Outturn returns

- 2.48 From this it can be seen that MBC spends more than its peers on:
- Parks and Open Spaces
 - Planning and Development
 - Parking (ie income is lower than average).
- 2.49 The next stage in development of the Medium Term Financial Strategy will be to identify savings that will address the budget gap. It is envisaged that the outcome of this review will be a set of growth and savings proposals that can be put forward to members and incorporated in an updated Medium Term Financial Strategy.
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3. AVAILABLE OPTIONS

- 3.1 The approach outlined to development of an updated Medium Term Financial Strategy for 2024/25 – 2028/29 and a budget for 2024/25 is agreed.
- 3.2 A number of factors that influence the annual budget and the MTFS are not yet known. However, the disadvantage of this approach is that it could take some time for full information to emerge, and in the meantime the Council needs to take steps to set a budget for the coming year.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is to proceed with development of an updated MTFS. Whilst there is a considerable amount of uncertainty about the future, this can be addressed through careful consideration of the risks and by building flexibility into our financial plans.
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5. RISK

- 5.1 The preceding paragraphs have indicated at several points the risks and uncertainty surrounding the Council's financial position. In order to address these 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.
- 5.2 It should be recognised that risks are not usually discrete. There are interrelationships between the risks, such that (for example) inaccurate inflation projections could impact the overall risk of failing to deliver a balanced budget.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Consultation with all relevant stakeholders is an important part of the process of developing the MTFS. A public budget consultation is due to take place shortly and the results will be reported to the Policy Advisory Committees and the Cabinet in the Autumn. Individual Policy Advisory Committees will be consulted on the details of the MTFS proposals as they affect the respective Committee portfolios.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 An outline timetable for developing the Medium Term Financial Strategy and budget for 2024/25 is set out below.

Date	Meeting	Action
26 July 2023	Executive	Agree approach to development of updated MTFS and key assumptions
July – August		Officers develop detailed budget proposals for 2024/25, informal consultation takes place with Policy Advisory Committees
September 2023	All Policy Advisory Committees	Consider 24/25 budget proposals and draft MTFS
19 September 2023	Overview & Scrutiny Committee	Agree 24/25 budget proposals and draft MTFS
20 September 2023	Cabinet	Agree 24/25 budget proposals and draft MTFS
December 2023		Provisional Local Government Finance Settlement published
5 February 2024	Corporate Services Policy Advisory Committee	Consider final budget proposals and MTFS
7 February 2024	Corporate Services Policy Advisory Committee	Agree final budget proposals and MTFS for recommendation to Council
21 February 2023	Council	Approve 24/25 budget

8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

None.