

BUDGET STRATEGY 2012/13 ONWARDS**DRAFT MEDIUM TERM FINANCIAL STRATEGY
2012/13 ONWARDS**

Index	Page
Introduction	1
Revenue	
Expenditure	2
Funding	3
Capital	
Programme	6
Funding	7
Reserves	
General Fund	8
Provisions	8
Capital Receipts & Contributions	8
Efficiency	9
Consultation	11
Risk Management	12

1. **INTRODUCTION**

- 1.1 This financial strategy aims to support the Council's corporate objectives as identified in the strategic plan 2012 to 2017. Whilst achieving this, major issues relating to resources and facing the Council in the medium term will also be highlighted.
- 1.2 This strategy document sets 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 the resources being controlled in a way that ensures long-term stability.
- 1.3 The approach of this strategy is to develop a four year plan with consideration of the impact of material issues on a fifth year. The current year's formula grant settlement, being the final year of the current system, required a number of assumptions about further years of the strategy and these have been based around the Spending Review 2010 data.
- 1.4 Although this document is developed for the medium term with an outlook from four 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 strategic plan. This will enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key outcomes. Production of this document and the balanced budget it facilitates support the key outcomes of the strategic plan in their own right.
- 1.5 In addition the Council has consulted with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

2. REVENUE

2.1 Expenditure

2.1.1 The portfolio budgets in the full revenue estimates include detailed proposals for dealing with financial pressures and service demand, this financial strategy 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.

2.1.2 Pay and price inflation:

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

Other costs will need to consider a suitable inflation index balanced with the objectives of the strategy. 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. The strategy may intentionally use levels of increase lower than these indices to enhance general efficiencies.

Table 1 below details the factors used for each year.

Inflation Indices	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Pay Inflation	0.0	1.0	1.0	2.0	2.0
Other Costs Inflation	0.0	0.0	0.0	0.0	0.0
Contractual Commitments	4.2	3.8	3.0	3.0	2.0
Business Rates Increases	5.2	4.8	3.5	3.5	3.0
Energy Increases	16.0	5.0	4.0	4.0	3.0
Growth in £,000	£410	£362	£415	£587	£521

[Table 1: Pay & price Indices]

2.1.3 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. This may place additional pressure on the revenue budget.

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.

Strategic Issues	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000
Revenue support to Capital	150	150			
Changes to the Election Process		-80	180		
Council Tax Benefit Changes		160			
Transition to Universal Credit			150		
Local Development Framework	170	130			
Pay Restructure	160				
Economic Development	30	40			
Homelessness	60				
Service Agreements with Parishes			80		

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

2.2 Funding

2.2.1 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, council tax and locally derived income from fees and charges. Where the financial projection includes the use of fixed term grant or other time limited income sources each portfolio is responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

2.2.2 Government Grant:

The revenue support grant, also known as the formula grant, is expected to cease to exist in its current format from 2013/14. The government has confirmed the level of formula grant for 2012/13 and the value is as reported provisionally in January 2011.

The spending review published in October 2010 identified the maximum level of national resources available for each year up to 2014/15. It also identified plans to review formula grant commencing with the local retention of business rates in 2013/14. Whilst it is not yet clear what level of business rates will be retained by the Council, assumptions have been made that reflect the national reduction in resources available and the proposals outlined in the Government's consultation.

Other grants received from the government are similarly under threat from the effects of the governments strategy to reduce

public expenditure as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only freezes such grants at their 2011/12 cash values unless further data is available. Table 4 identifies expected variances from this assumption.

2.2.3 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.

In 2011/12 the Council set a zero percent council tax increase and now receives council tax freeze grant that is equivalent to a 2.5% increase annually until 2015/16. The removal of this grant is provisioned in the strategy as can be seen in the strategic revenue projection.

The government has, for a second year, set an objective of a national council tax freeze. This has been formulated into this strategy at 2.5%. This year the government has offered a single year's grant.

2.2.4 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 changes in price. This means that any increases in this funding source will be identified through each portfolio's detailed budget preparation work.

For 2012/13 all fees and charges made by the Council were considered by Cabinet and a range of increases were set in line with the policy statement. Although the increase in each charge was considered and set appropriately for its individual circumstance, the overall position created a 2% increase in expected income.

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 Issues	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Revenue Support Grant	-12.0	-13.6	-6.4	3.4	8.3
Fees & Charges	2.0	0.0	0.0	0.0	0.0
Council Tax	2.5	2.5	2.5	2.5	2.5

[Table 3: Resource and income indices]

Strategic Issues	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000
Benefit Administration Subsidy	40	40			
Safer Maidstone Partnership	30	30			
Council Tax Freeze Grant				335	
Income reduced by Regeneration Projects	100	200	200		

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

3. CAPITAL

3.1 Programme

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

3.1.2 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.

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

3.1.4 Prioritisation of schemes will occur in the following order:

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

3.1.5 The programme for the period 2011/12 to 2015/16 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.

3.1.6 The capital programme is a four year programme and Table 5 below summarises the programme by portfolio and includes revised figures for the current year.

Portfolio	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
Corporate Services	293	330	280	280	
Environment	126				
Community & Leisure	2,640	1,400	50	50	
Economic Development & Transport	4,587	2,896	1,688	1,490	
Grand Totals	7,646	4,626	2,018	1,820	0

[Table 5: Capital programme]

3.2 Funding

- 3.2.1 Since 2004 the Council has been debt free and the major 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 alternative funding will occur in 2015/16.
- 3.2.2 In recent years the Council has been in receipt of new homes bonus. At this time the future of this funding stream is uncertain. As a prudent use of this money the Council has supported its capital programme and not the short term deferral of financial savings required in the revenue budget.
- 3.2.3 Although commitment to a scheme is given by its inclusion in the programme, the strategy requires that funding is identified in advance of formal commencement of work. This assumption can 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 risk of prudential borrowing need.

Portfolio	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
Revenue Support	-3,322	-1,163	-1,568		-1,494
Use of Capital Receipts	-2,183	-1,400		-1,370	-430
Capital Grants and Contributions	-2,141	-2,063	-450	-450	-450
Grand Totals	-7,646	-4,626	-2,018	-1,820	-2,374

[Table 6: Capital financing, confirmed and assumed]

4. RESERVES

- 4.1 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.
- 4.2 All revenue balances at 1st April 2011 total £9.9m and it is estimated that this balance will be £4.7m by 1st April 2012. The major items reducing the balance are approved budget carry forwards of £2.8m from 2010/11 resources into 2011/12 for prior agreed purposes and support for the Local Development Framework and minor initiatives.
- 4.3 The balances comprise a general balance and a series of specific allocations the breakdown of these is given in Table 7 below.

Balances	01/04/2011 £,000	01/04/2012 £,000	01/04/2013 £,000
General Balance	7,117	3,341	3,241
Trading Account Surpluses	30	30	30
Asset Replacement	47	47	47
Invest to Save Initiatives	559	509	797
Local Development Framework	203	0	512
VAT Reclaim	1,977	897	0
Grand Totals	9,933	4,824	4,627

[Table 7: Revenue balances]

- 4.4 In addition to revenue reserves a small number of capital reserves exist due to the timing of expenditure in the Capital Programme.
- 4.5 Available capital receipts at 1st April 2011 total £1.5m and it is estimated that this balance will be used up during 2011/12.

5. Efficiency

- 5.1.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money (vfm) services that residents are satisfied with, as a key outcome. This theme runs through service plans and by this the Council's approach to efficiency is integrated in to all decision making.
- 5.1.2 The Council has successfully achieved all its government set efficiency targets and will not cease to monitor and improve upon levels of efficiency both through improved service levels and reduced costs.
- 5.1.3 The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:
- Annual best value reviews performed by officers and by members.
 - Kent wide benchmarking to measure unit cost and performance levels and compare these over time and across Kent.
 - Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
 - The identification of efficiency targets that match the Council's need over the period of this medium term financial strategy.
- 5.1.4 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.
- 5.1.5 The adoption of efficiency and VFM as part of this strategy helps to ensure that the financial projection will remain within available resources.
- 5.1.6 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	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
Annual Savings Requirement	1,602	1,540	1,060	473	
Percentage / Net Revenue Spend	8.2	8.0	5.5	2.4	

[Table 8: Annual savings requirement]

5.1.7 The Council has required the savings target to be met in the medium term and at this time proposals are in place to provide efficiency and savings to meet the requirement through to 2014/15. The Council is continuing to develop long term proposals to ensure the future risk is mitigated at the earliest time.

6. **CONSULTATION**

- 6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a programme has been proposed that ensures the focus of annual consultations avoids the review of similar themes and builds a body of opinion.
- 6.2 The Council consults annually on this strategy and the proposed budget for the forthcoming year. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.
- 6.3 In recent years the consultation has considered the level of Council tax increase acceptable and the service areas where reductions should occur, the elasticity of demand for services provided by the Council with a related fee and for this strategy the consultation focused on the long term factors faced by the Council due to the current economic climate and the relative importance residents place on a range of discretionary services provided by the Council.

7. **RISK MANAGEMENT**

- 7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, this strategy must consider the barriers to achieving the resource levels assumed by the budget.
- 7.2 A full risk assessment of the strategy has been completed and forms part of the operational risk assessment of the services provided by the Head of Finance and Customer services.
- 7.3 Twelve major risk areas have been identified and action plans have been developed for each. The twelve areas are as follows:
 - a) The level of balances;
 - b) Inflation rates;
 - c) National strategy;
 - d) External grants and contributions;
 - e) Limitations on Council Tax increases;
 - f) Fees and charges;
 - g) Capital financing;
 - h) Horizon scanning;
 - i) Delivery of efficiency;
 - j) Pension fund changes;
 - k) Business rates retention.
 - l) Council Tax Benefit changes