

MAIDSTONE BOROUGH COUNCIL

CABINET

25 JULY 2012

REPORT OF CORPORATE LEADERSHIP TEAM

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1. BUDGET STRATEGY 2013/14 ONWARDS

1.1 Issue for Decision

1.1.1 This report allows cabinet to review the medium term financial strategy (MTFS) for 2013/14 onwards along with developments and emerging issues that will affect the revenue budget for 2013/14. This report seeks Cabinet's view on draft assumptions that will be used to set the MTFS for planning purposes and for consultation.

1.1.2 The draft assumptions for the MTFS are considered in the context of the strategic plan both current as it will be revised during the budget strategy process.

1.2 Recommendation of Corporate Leadership Team

1.2.1 That Cabinet selects, for planning purposes, the strategic revenue projection that gives the appropriate outcome and agrees any necessary amendments to the projection.

1.2.2 That Cabinet gives an initial view on the level of Council Tax increase to be used for planning purposes. The three strategic revenue projections given at Appendix A all assume 2.5%.

1.3 Background

1.3.1 Due to the complex nature of the two issues, this year the MTFS is initially being reported to Cabinet in two separate reports. One on the capital programme and one on the revenue budget. Both reports are on the same agenda.

- 1.3.2 The MTFS currently approved by Council is a five year rolling strategy that is reviewed and updated annually as a key element of the development of the budget. The strategy sets out the revenue and capital spending plans of the Council and states the criteria by which decisions in relation to the development of the annual budget are to be made. This report reviews the strategy specifically in relation to the revenue budget and considers options for the development of the five year strategy.
- 1.3.3 Since the approval of the current MTFS at Council on 29th February 2012 there has been substantial work carried out surrounding the key issues facing the Council in the immediate and medium term future. Along with briefing and training sessions for members, working groups with a Kent wide focus have considered subjects as diverse as the localisation of council tax benefit and business rates to sharing best practice on savings strategies. This report brings together the current situation regarding these issues so that Cabinet can consider initial assumptions to be used for future planning.
- 1.3.4 The Council's MTFS and its Strategic plan are both closely aligned. This enables the Council to obtain maximum benefit from both strategies. The detailed actions required to achieve the key priorities set out in the strategic plan are contained within the Council's service plans. Achievement of these actions requires resources to be available at specific budget head level. At the level of this budget strategy, the links with the strategic plan require the assurance that the Council reaches a balanced budget and funding is available for priority service areas.
- 1.3.5 This report firstly considers the context in which the MTFS for 2013/14 onwards is being developed. It then considers each major element of the strategic revenue projection in relation to any known developments or emerging issues that may possibly require amendment to the projection or the strategy.
- 1.4 Background
- 1.4.1 Attached at **Appendix A** is the budget summary for 2012/13. This was agreed at Council on 29th February 2012 but has been reconfigured to show the current Cabinet structure. The 2012/13 budget was developed from the work on the MTFS during 2011/12 and forms the base point for the consideration of possible amendments detailed in this report.

1.4.2 Also attached for further information are the following:

- **Appendix B** – The MTFS for 2012/13 onwards;
- **Appendix C** – The statement of balances projected to March 2013

1.5 The Local Context

1.5.1 The outturn position for 2012/13 was reported to Cabinet in May 2012. The report showed a net under-spend against budget of £1.1m, after allowance for carry forward requests approved by Cabinet at that time. The total under-spend was £4.65m and a breakdown of the sum into its component parts is given in the table below.

	£,000
Capital Support	2,304
Grants and Contributions	549
Carry Forwards	687
Net underspend	1,113
Total Underspend	4,653

1.5.2 Available balances, as set out in Appendix C, are at least £2.9m above the level of working balances set by Cabinet. At its meeting in May 2012 Cabinet requested that officers report back on options to utilise the £1.1m added to balances at the end of 2011/12. Proposals put forward by officers are being assessed for their links to the Council's strategic priorities and will be reported to a future Cabinet meeting.

1.5.3 At this time it is appropriate to mention a link between the proposals for the use of balances, this MTFS report and the capital programme report elsewhere on this agenda. One option Cabinet may wish to consider in relation to use of the additional balances is to set aside funds for the implementation of commercial development activity. This could ensure initial borrowing costs are covered while start up schemes are given the opportunity to generate the expected benefits or it could be used as research and development funding for proposals that require professional advice not available internally. A more detailed assessment will be incorporated, if necessary, in any report back to Cabinet arising from the recommendations in the capital programme report elsewhere on this agenda.

- 1.5.4 The budget set out at Appendix A for 2012/13 is, as a result of the work carried out in 2011/12, a balanced budget. Monitoring of the savings set out in the strategy for 2012/13 shows that there are only small variations to those planned and these have all been resolved by management action. This means the budget remains balanced and affordable.
- 1.5.5 In considering the MTFS in earlier years Cabinet has already identified actions to save £0.6m during 2013/14 and work is already progressing to identify further savings. As an enhancement to the work on the strategy, this year the analysis of savings proposals will include an individual rating as to the risk of non-delivery. This will enable Cabinet to take a broader view on the level of savings targeted allowing the strategy to account for potential non-delivery. This revision is essential given the current economic climate and the financial expectations as set out in the next section of this report.
- 1.5.6 These local factors contribute to a very stable base on which to build the 2013/14 budget.

1.6 The National Context

- 1.6.1 Since 2010/11 the Council's MTFS has been considered within the framework of the government spending review of October 2010. Public sector spending reductions form a major part of that review and are central to the government's objective of removing the structural deficit. The initial reductions in grant aid to local government formed a major part of that reduction and it was expected that the year 2013/14 would see much smaller reductions in resources at a local level.
- 1.6.2 Since that time the government has progressed with some of its localisation plans culminating in two further significant changes from 1st April 2013. These are:
- The localisation of business rates and, for this Council at least, the end of formula grant; and
 - The change of council tax benefit into a local discount as part of the wider universal credit reforms.

Although these changes will take effect from 1st April 2013 much of the information in relation to the level of resources arising from these changes await clarification from central government.

- 1.6.3 To date the effect on the economy of the Government's plan has not been as significant as expected. The economy has proven resistant to the efforts and international economic problems have increased pressure on the UK economy. Tabulated below are the economic indicators of growth and national debt for the past five years.

	2008	2009	2010	2011	2012 (current)
Growth	3.5%	-3.6%	1.5%	0.7%	-0.2%
National Debt	£614.4bn	£796.9bn	£909.0bn	£921.3bn	£1,013.4bn

- 1.6.4 A range of other indices have a direct effect upon the MTFs and are useful for consideration at this point. Tabulated below are the RPI (Retail Price Index), CPI (Consumer Price Index), the base rate and the LIBOR (London Inter-Bank Offered Rate) over a similar period.

	Mar 2009	Mar 2010	Mar 2011	Mar 2012	May 2012 Current
RPI	-0.4%	4.4%	5.3%	3.6%	3.1%
CPI	2.9%	3.4%	4.1%	3.5%	2.8%
Base Rate	0.5%	0.5%	0.5%	0.5%	0.5%
LIBOR 1mth	0.533%	0.237%	0.253%	0.241%	0.243%

- 1.6.5 As previously stated the government is in consultation with local government over localising business rates and local powers to grant council tax discounts that will replace centrally funded benefits. The current situation regarding each is considered later in this report.

1.7 The Strategic Revenue Projection

- 1.7.1 The strategic revenue projection is a model used annually by Cabinet to concisely project the effect of major local and national priorities on the future revenue budget of the Council. In the past Cabinet has used, at this early stage, a document that models three outcomes: the currently expected outcome; the worst case; and the best case. This enables cabinet to consider the currently expected outcome, recommended by this report, against alternatives.
- 1.7.2 All three models use predictions regarding factors such as inflation rates and the consequences of local and national initiatives on the future revenue budget of the Council. The most significant factors are discussed individually later in this report.
- 1.7.3 The three strategic revenue projections are given at **Appendix D**. Cabinet may wish to select one as the future planning tool or modify any of the three to meet their favoured assumptions. There is a significant amount of detail in each of the three models created by the assumptions. They are set out in detail in **Appendix E**. Where specific values are quoted in this report they relate to the values

calculated in the "currently expected" model unless otherwise stated.

1.7.4 It is recommended that Cabinet adopt the "currently expected" model as the planning tool used for consultation and future MTFS planning.

1.8 Significant Assumptions in the Strategic Revenue Projection

- Inflation Indices

1.8.1 These are considered in detail for their effect on the subjective elements of the revenue account. The budget for 2012/13 has been divided between employee costs, energy costs, business rates, contractual commitments and other running costs. For each subjective element the appropriate index and rate have been discussed with services managers. In the case of employee costs a new, simplified grade structure was introduced for 2012/13 and the index reflects the cost of expected increments within that new structure.

- Welfare Reform

1.8.2 The major consequence of welfare reform is the localisation of council tax benefit as a discount. A separate report on this agenda details the work to produce an affordable scheme and prepare for its administration. The main assumptions in this SRP are that the scheme recommended in the full report elsewhere on this agenda will be agreed. This scheme provides reasonable assurance that additional costs will be supported by the major preceptors and not become a burden on this Council.

1.8.3 That report and the MTFS assumptions are based upon the latest guidance from central government. The guidance suggests that the DCLG forecasts a significant reduction in benefit claimants and has calculated future grant payments on that basis. This is contrary to the Council's experience and the Council has reported its concerns to the DCLG through the Local Government Association. The strategic revenue projections have been developed assuming that this specific loss, should claimants numbers not reduce as the DCLG expects, will not be reimbursed by major preceptors under the Kent wide agreement. The strategic revenue projection reports and increased budget pressure of £0.2m from this additional loss.

- 1.8.4 Another element of welfare reform is a move to universal credit. This will begin to affect Council services during 2013/14. The most likely effect is that administration costs of the localised council tax discount scheme will increase due to the reduction in service levels as claimants pass on to universal credit from housing benefit. This will actually occur over a period of four years from 2013 to 2017. The cost is assumed to affect the Council in 2014/15.
- Council Tax Freeze Grant
- 1.8.5 The grant given to those authorities that froze their council tax in 2012/13 was a one year grant and will end in 2013/14. In addition the four year grant given for the freeze in 2011/12 was expected to end in 2015/16. The consultation on localisation of business rates made it clear that this grant will be integrated into the baseline for retained business rates and will not be received separately after 1st April 2013. This means that the Council must provide for non-receipt of both council tax freeze grants in 2013/14.
- King Street Car Park
- 1.8.6 Provision was made in 2012/13 for the lost rental from the ground floor retail unit at the car park but further consideration is now being given through the capital programme to essential major works on the property. Whatever works are carried out can be expected to have a direct impact on revenue income from the site and provision is made here for the loss of up to £0.2m.
- Local Development Framework
- 1.8.7 As work on the core strategy progresses it has become possible to more accurately assess the resources required to complete the task. This assessment and operational changes to the work required have enabled a reduction in the resources required of £0.08m from the £0.13m previously assumed.
- Income from Services
- 1.8.8 In general the income from service activity forms part of the net revenue budget and is treated separately from Council Tax and Business Rate income. For 2012/13 Cabinet considered all fees and charges within a single report enabling decisions based on a corporate strategy that met the priorities set in the strategic plan and enabled Cabinet to consider possible increase in light of the cumulative impact on single families through a knowledge of all proposed changes at the same time.

1.8.9 It is intended to provide the same single review of fees and charges for 2013/14. Completed in this way, the increase in fees and charges is not included in the strategic revenue projection but is reported in the savings proposals at a later date.

- Localised Business Rates

1.8.10 The strategic revenue projection includes assumptions regarding the expected level of income that the Council will be permitted to retain from the collection of business rates. The assumptions are derived from work completed on behalf of the Council by the consultants LG Futures.

1.8.11 In the latest feedback from government there are signs of a relaxation of some of the issues raised previously with Cabinet. The major risk of non-collection has now been shared with central government by the proposed use of proportionate rather than absolute shares. The actual value of shares and the effect of top slicing other resources from retained business rates are likely to remain unclear until the third quarter of 2012/13.

1.8.12 The Government has recently announced its intention to complete a further spending review in 2014. Given the current economic climate and the government's previously announced plans, modelling by the Local Government Association suggests that the reductions facing the public sector will be as severe if not worse than those announced after the spending review in 2010. It is therefore possible that within the lifetime of the current MTFS there will be further significant reduction in resources derived from taxation. It has been assumed at this time that the expected additional loss and the effect of business rates growth in the borough will have a neutral effect on the local share of business rates.

- Council Tax

1.8.13 The level of council tax is affected by two factors. These are changes in the property base within the borough and increases in the charge set by the Council. For 2013/14 the changes to the property base will be significant as this is the process by which the local council tax discount will replace the council tax benefit scheme. By reducing the claimants' liability rather than paying the tax due on their behalf.

1.8.14 All three strategic revenue projections set out in Appendix D include a 2.5% council tax increase, an assumed 0.5% increase in the tax base and an assumed 2.4% increase in benefit caseload.

1.8.15 A 2.5% increase in the level of council tax for this Council is £5.56 per annum for a band D tax payer. This would increase the current band D council tax from £222.39 to £227.95. The council tax raised by the increase is not directly comparable to the council tax raised for 2012/13 because of the previously discussed council tax discount. However the additional resource due to the council is estimated to be in the region of £0.16m

1.9 Savings & Efficiency

1.9.1 The strategic revenue projections identify the predicted levels of resource available to the Council and the additional budget pressures facing the Council for each year of the MTFS. From this information the level of savings and efficiency required to create a balanced budget can be deduced.

1.9.2 The three versions of the strategic revenue projection attached as Appendix D produce the savings tabulated below

	2013/14	2014/15	2015/16	2016/17	2017/18
	£,000	£,000	£,000	£,000	£,000
Worst Case	2,227	1,362	1,370	1,219	709
Expected	2,035	976	982	866	431
Best Case	1,748	849	107	358	67
Savings Proposals	(608)	(335)			

1.9.3 The work completed on the MTFS in previous years means that some proposals already exist to achieve the required savings for 2013/14 and 2014/15. Based on the figures from the expected model and allowing for the savings already proposed there is still a need to identify savings and efficiencies as follows:

Year	Saving
	£,000
2013/14	1,427
2014/15	641
2015/16	982
2016/17	866
2017/18	431
	4,347

1.9.4 A number of initiatives can assist the Council in identifying actions that will achieve these revised targets, such as:

- The corporate improvement plan;
- Proposals around income generation as part of the commercial development proposals;
- A review of major contracts;
- Ongoing reviews of new ways of working and staff structures.

1.10 Consultation

1.10.1 Budget consultation is a formal and necessary element of the budget strategy process. It allows residents, customers, business and other stakeholders to provide feedback and opinion to Cabinet on the developing strategy.

1.10.2 In recent years the budget consultation has proven to be a successful event providing general support for Cabinet's plans and feedback including proposals for further savings.

1.10.3 At this time the Head of Finance & Customer Services and the Head of Communications are assessing options for this years consultation exercise and will report those options to Cabinet in August 2012.

1.11 Alternative Action and why not Recommended

1.11.1 Cabinet could at this stage await the outcome of a number of the developments occurring this year. For example the details relating to business rates localisation and the new arrangements for council tax benefit will all be updated by the third quarter of 2012/13. It is however prudent to agree a revenue projection at this stage to enable planning for the required savings and for consultation.

1.11.2 With reference to the specific issues and assumptions within the report it is inevitable that Cabinet will need to take a view on each issue and assess their future impact on the Council. The three strategic revenue projections are developed to assist Cabinet with this issue. It is the intention of the report to initiate discussion and to provide Cabinet and interested members with the opportunity to raise issues and concerns for consideration as the MTFS develops.

1.12 Impact on Corporate Objectives

1.12.1 It is the purpose of the budget strategy to allocate resources to the key outcomes in the strategic plan, including the allocation of resources to other plans and strategies developed to achieve those outcomes. It is necessary for Cabinet to be satisfied that their key objectives are funded through this strategy.

1.13 Risk Management

1.13.1 Matching resources to key priorities in the context of the significant pressure on the Council's resources is a major strategic risk. The MTFS is strengthened and improved each year to improve its resilience and effectiveness. Recent developments include the corporate fees and charges report agree last year as a single view of all fees and charges to enable Cabinet to assess the cumulative effect on customers of all changes.

1.13.2 Specific budget risks and opportunities are identified in the main body of the report, especially the consideration of the factors in the strategic revenue projection. The selection of the most appropriate strategic revenue projection and the continued monitoring of the factors included will help mitigate these risks.

1.14 Other Implications

1.14.1

1.	Financial	X
2.	Staffing	X
3.	Legal	
4.	Equality Impact Needs Assessment	X
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	X

- 1.14.2 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 Cabinet gives consideration to the financial consequences, at service level, from the recommendations in this report.
- 1.14.3 Staffing - The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.
- 1.14.4 EINA - The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.
- 1.14.5 Asset Management - Resources available for asset management are affected by both the strategic revenue projection detail within this report and the capital programme set out elsewhere on this agenda.

1.15 Relevant Documents

1.15.1 Appendices

- Appendix A – Budget summary 2012/13
- Appendix B – Medium term financial strategy 2012/13
- Appendix C – Estimated balances as at 31st March 2013
- Appendix D – Strategic revenue projections
- Appendix E – Assumptions in the strategic revenue projections

1.15.2 Background Documents

- Strategic Plan 2012/13 Onwards
- Business Rates consultation
- Localisation of Council Tax Benefit DCLG guidance

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because it is a budget strategy report

Wards/Parishes affected: All