

**THE MAIDSTONE BOROUGH COUNCIL**

**REPORT OF MANAGEMENT TEAM**

**8 JULY 2009**

**CABINET**

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1. **BUDGET STRATEGY 2010/11 ONWARDS**

1.1 Issue for Decision

1.1.1 This report allows Cabinet to take an early view on strategic budget issues for 2010/11 onwards including the revenue and capital spending programme. The report also allows Cabinet to give any early view on the level of Council Tax increase. All these issues are to be considered in the context of the Strategic Plan and the achievement of Key Priorities.

1.2 Recommendation of Management Team

1.2.1 That the Cabinet considers the Medium Term Financial Strategy, as set out in Appendix B.

1.2.2 That Cabinet considers an initial view on the levels of Council Tax increase for 2010/11 and future years to inform the strategic projections provided in Appendix F.

1.2.3 That Cabinet gives further guidance on areas of potential growth and savings for 2010/11 onwards after considering the key risks identified in Paragraph 1.5 and the scenarios outlined in the strategic projections.

1.2.4 That Cabinet notes the extent of the Capital Programme for 2010/11 onwards.

1.2.5 That Cabinet considers the options for public consultation.

1.2.6 That Cabinet considers the timetable for the Budget Strategy 2010/11.

1.3 Background

1.3.1 This Authority has, for many years, adopted best practice and has considered strategic budget issues at this stage in the municipal year. This allows for the early consideration of key issues, with a view to setting a balanced budget for the following financial year at the Council meeting in February 2010.

1.3.2 The budget strategy needs to be considered in the context of the strategic plan and the resources necessary to deliver the key priorities identified therein. Although the correct context is with the strategic plan for 2010 - 2013, this will not be considered by Cabinet until later

in the year, at which time this budget strategy will be aligned with the priorities it will contain. The strategic plan 2009 - 2013 contains five priority themes for which major elements of this budget strategy provide support and any necessary growth. The five priority themes are:

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

1.3.3 Attached as Appendix A is the budget summary for 2009/10 which was agreed by Council in February in 2009. This was developed in the context of the Strategic Plan 2009-2012.

1.3.4 The outturn position for 2008/09 was reported to the Cabinet meetings in May and June 2009. Those reports identified a global issue in relation to income generation due to the economic climate for 2008/09. The 2009/10 budget strategy process identified resources to support income generation during 2009/10 which will naturally carry forward into the 2010/11 base position. Income generation remains a key issue for monitoring during 2009/10 and any significant consequences will be included in quarterly budget monitoring reports to Cabinet during the year.

1.3.5 For further background information, the following is also attached.

- a) The currently agreed Medium Term Financial Strategy is set out at Appendix B;
- b) The current statement of balances projected to 2010 is detailed in Appendix C, this takes into account the final outturn position for 2008/09 as previously reported;
- c) The current capital programme is set out at Appendix D as amended to reflect Cabinet's decision on Growth Point funding in May 2009;
- d) The current projection for the use of Capital Receipts is set out in Appendix E;

#### 1.4 Strategic Projections

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

1.4.2 Officers have developed three alternative models best, worst, and most likely cases, for Cabinet to consider. All three alternatives include a number of assumed factors such as inflation rates, capital expenditure levels and resources available to finance that expenditure, government actions in relation to general grant levels and the council tax increase for each year. The models will be maintained and amended as more accurate information becomes available during the year. Cabinet should, at this stage, decide upon the factors that form the scenario that they wish to adopt. Future reports will then focus on the chosen scenario, providing details of the others as background information.

1.4.3 The models are attached as Appendix F and are based on a series of financial assumptions. As the assumptions have been compiled separately for each of the three scenarios the most appropriate way to display the necessary information is in a matrix which is given in Appendix G. In addition, the following general assumptions have been made:

- a) With regard to the medium term, no assessment has been included in any scenario for the potential impact of government changes to local government finance following the Lyons review;
- b) It is assumed that members will continue with the previous policy on balances i.e. to maintain levels of uncommitted balances of at least 10% of net revenue spend. As a result of the current level of balances as set out in Appendix C it is assumed that no contribution to balances for 2010/11 onwards will be required;

1.4.4 Members will see from Appendix F that, based upon the assumptions detailed, a significant level of saving will be required to insure the provision of a balanced budget without the threat of council tax capping. The level of saving for each year, and for each of the three scenarios, is shown in the table below.

<b>Year</b>	<b>Best Case Scenario</b>	<b>Most Likely Scenario</b>	<b>Worst Case Scenario</b>
2010/11	1,366	1,921	2,853
2011/12	422	864	1,489
2012/13	116	509	1,035
2013/14	10	379	509
2014/15	142	268	670

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

1.4.5 At this early stage in the budget cycle the strategic projection, and therefore the level of savings required, will inevitably move according

to changing requirements in council priorities, external factors and the progressive development of more accurate information with regard to the above assumptions.

- 1.4.6 It should be noted that the strategic projection is intended to include the necessary resources to fulfill all developing partnerships and strategies. Any necessary changes to the strategic projection will be reflected in future budgets strategy reports.

## 1.5 Key Risks

- 1.5.1 In developing the budget strategy over the following months a number of key risks must be addressed. These risks are identified in the strategic projections but constitute key risks for the council financial stability and are significant enough to be brought to Cabinets attention individually.

- 1.5.2 The national concessionary fares scheme has badly affected this Authority. From April 2011 the Government may transfer the service to the county council and officers believe there is a high risk of significant cost increases in the final year along with potential transfer costs in 2011/12. The council has been notified of a potential claim for adjudication by one of the major bus operators in the Maidstone area. Were this adjudication claim to be successful, at a level similar to the claim affecting East Kent during 2008/09, the cost to the Council could be £0.4 million. The opinion of the Council's consultant is that there is currently opportunity to partially mitigate this risk through negotiation with the bus operator.

- 1.5.3 The capital programme, as agreed at Cabinet in May 2009, is funded in its entirety from capital grants, revenue funding and capital receipts in 2010/11. As previously reported to Cabinet, over the forthcoming three financial years, assumed capital receipts and grants in excess of £7 million are included in the financial projections. There remains a significant risk, in the current economic climate, that these capital receipts will not be delivered in the short term and the council may need to borrow to finance its capital programme and insure the achievement of its strategic objectives.

- 1.5.4 The Homes and Communities Agency (HCA) has indicated in discussions with officers that the resources that have been utilised for grant aid since the Governments recent actions to reinvigorate the housing market are depleting. This means that a future shortage of resource is looming. Although the Council has been very successful at leveraging additional resources from the HCA in 2008/09 and 2009/10 it is probable that the future shortage of resources will have a significant effect on the Council's programme of support for RSL's.

- 1.5.5 For the last four years the Council has received Strategic Housing grant aid from the Government. This has been utilised, through programmes such as the rent deposit scheme, to support persons who would otherwise become homeless. The DCLG has suggested that this grant may be terminated in the near future and Cabinet may wish to consider the benefit of maintaining the scheme against the risk of additional

costs of housing homeless families.

- 1.5.6 Throughout 2008/09 Cabinet received quarterly budget monitoring reports which identified a significant shortfall in income generated throughout the Council's services. Cabinet, and service management, took action to contain the effect of this shortfall which was £1.5 million in the full year. A significant risk was identified in the 2009/10 budget strategy process relating to the continuance of this income shortfall into the current financial year and to mitigate this Cabinet included £0.5 million in budget strategy growth to contain that possibility in the current financial year. The first Budget Monitoring Report for 2009/10 will be completed in time for the August Cabinet and current indications suggest that there continues to be a significant level of shortfall in income generation in many services that have incurred shortfalls in 2008/09 such as development control, commercial rents and park and ride. A number of the actions taken to control this in both 2008/09 and 2009/10 have yet to be seen to take full effect and an analysis will be contained in the quarterly report to the next Cabinet. The strategic projection for the previous budget cycle included an assumption that £0.2m would be necessary in 2010/11 and at present it is proposed to maintain this level of additional provision.
- 1.5.7 Current economic conditions suggest continued problems although the future predictions are less reserved than they have been, suggesting stability or slight improvement.
- a) From March 2009 through to the current monthly figures, RPI has seen a year on year decrease; current figures for May 2009 are -1.1%. CPI inflation is 2.2% and the current prediction is for inflation to remain stable or slightly increase.
  - b) Interest rates are likely to increase slightly throughout the year, from a current average of around 1.5%. This will not be as critical to the Council's financial position as the maturity of its longer term high rate investments and the reduction in balances available for investment.
  - c) If, as predicted, economic growth shows an increase over the current year, there will be an increasing benefit to income generating services. At this point in the budget strategy process it would be prudent to maintain the current provisions against income shortfall.

## 1.6 Key Opportunities

- 1.6.1 The Council has a track record of successfully addressing key risks in the budget and it has a balanced budget for 2009/10 that is based on a sound budget strategy without the use of balances to fund current service costs. In addition the delivery of value for money is embedded in Council decision making through a number of strands of activity such as business transformation, invest to save funding, robust procurement, regular benchmarking, performance measurement and joint working.

1.6.2 The strategic projections at Appendix F consider the current level of service and areas of growth identifying the maximum savings requirement in each year. The revenue resources currently available to the Council include a number of items available to Cabinet to reduce this growth. At present these items are not included in any model given at Appendix F.

- a) In 2009/10 the budget strategy provided for a 2.5% increase in inflation. The agreed pay rise for the current year was 1% which means a balance exists within the 2009/10 budget and therefore in the balance brought forward into the current strategic projections. This figure approximates to £0.24m and can be utilised to directly reduce the level of saving required in 2010/11
- b) The Chief Executive's review of structure, completed between February 2009 and May 2009, occurred in two stages. The second stage created a saving of £0.1m. This saving has been utilised in 2009/10 to cover the cost of the restructure but will be available from 2010/11 to directly reduce the level of saving required.
- c) Previous years strategic projections have included an assumption of achieving £0.4m in efficiency savings. This year it is proposed to set this target more generally, requiring feedback from budget managers to identify efficiency first. However in previous years zero inflation on non-contractual items has formed part of the efficiency saving. This would generate approximately £0.1m that would directly reduce the level of saving required.
- d) Appendix C details the projected level of balances which, at £3.1m at the beginning of 2010/11, is above the minimum level of working balances agreed by Cabinet. This level is 10% of net revenue expenditure and would be £2.3m for 2010/11. This resource could be utilised to cover the cost of short term growth items such as concessionary fares if the transfer to the County Council occurs as expected. Alternatively it could remain in balances until performance against income targets for 2009/10 can be better assessed.

## 1.7 Capital Programme

1.7.1 At the May 2009 meeting Cabinet agreed proposals for the use of growth point funding. The report and decision included other revisions to the Capital Programme to match Cabinet's key priorities. The programme agreed at that meeting is attached at Appendix D. This programme currently offers the best options for achieving Cabinet's key priorities, given current information relating to resources available to fund the programme.

1.7.2 The Cabinet decision in May 2009 incorporated consideration of the utilisations of capital receipts. The detail of this is attached at Appendix E. The programme is reliant upon the future sale of surplus assets and the receipt of grant and external funding in excess of £7m.

1.7.3 The approved capital programme given in Appendix D assumes a need to borrow in 2011/12 to complete the programme. In order to

facilitate this possibility the prudential indicators that form part of the current treasury management strategy included potential to borrow up to £4m. The strategic projections at Appendix F consider differing levels of use with the most likely scenario incorporating borrowing of £2m in 2009/10.

- 1.7.4 These issues will be carefully monitored throughout 2009/10 and developments will be reported to Cabinet as part of the quarterly budget monitoring reports.

## 1.8 Consultation

- 1.8.1 Previous Cabinets have felt it best practice to consult the public on budget options during the Autumn period. This has taken a variety of forms over previous years. Budget Consultation is an essential element of the overall Corporate Governance arrangements of the Council and is also an important element in the External Auditors assessment of the Authority's Use of Resources arrangements.

- 1.8.2 In recent years the methods used for consultation have included focus groups for stakeholders including businesses, staff and young people, road shows and Borough Update surveys with incentives. Budget consultation occurring through the website is achieved through a budget simulator. This allows the public to identify preferences for service savings and service development with the objective of setting a Council Tax increase that they consider satisfactory. In previous years the results of the simulator have closely matched the priorities of the Council and the results of other consultations. This fact and the fact that over 700 responses have been received suggest that this consultation has been successful. The results of the exercise are reported to Cabinet and in the past have validated decisions taken as part of the budget strategy process.

- 1.8.3 The various consultation exercises have been combined with a general information programme to help the public understand the cost of Borough Council's services.

- 1.8.4 In view of the increased importance of LAA2, and the LSP, it will also be appropriate for the Cabinet to consider a consultation exercise with the Authority's partners and to seek those partners to consult the Council in their budget proposals.

- 1.8.5 Previous experience of consultation has demonstrated that early identification of the focus of the consultation and advance preparation produce a more effective result. Cabinet may wish to consider, at this stage, the focus of the Consultation which could follow previous years and cover a broad range of services at a high level in order to match results to Council priorities. Alternatively Cabinet may wish to focus on an issue or range of services, for example discretionary spend areas identified by successive Cabinets through the service priority matrix.

## 1.9 Time Table

- 1.9.1 Cabinet should consider the timetable for their consideration of the Budget Strategy. The updated timetable given below has enabled

previous Cabinets to achieve full consideration of all issues in a timely manner.

<b>Action</b>	<b>Date</b>
Initial consideration by cabinet, including reference to Corporate Services Overview and Scrutiny Committee	8 <sup>th</sup> July 2009
Consideration by Corporate Services Overview and Scrutiny Committee	4 <sup>th</sup> August 2009
Detailed Consideration by Cabinet Members of budgets, savings options, service enhancements and fees and charges	September to October 2009
Public Consultation	September to November 2009
Cabinet review of budget strategy including reference to Corporate Service Overview and Scrutiny Committee. Data updated by previous activity and external factors	9 <sup>th</sup> December 2009
Consideration by Corporate Services Overview and Scrutiny Committee	12 <sup>th</sup> January 2010
Reference back to Cabinet from Corporate Services Overview and Scrutiny Committee	13 <sup>th</sup> January 2010
Approval by Cabinet Members	January to February 2010
Approval by Cabinet and reference to Council	10 <sup>th</sup> February 2010
Approval by Council and setting of Council Tax	3 <sup>rd</sup> March 2010

## 1.10 Conclusions

- 1.10.1 This first budget strategy report for 2010/11 onwards commences from a strong base of a balanced budget for 2009/10. In addition regular monitoring throughout 2008/09 has provided information about key risks to the budget. These key risks have been identified, along with known opportunities, and form part of the strategic projection.
- 1.10.2 The strategic projection has been presented as three models. The most likely case model contains the current assessment of internal and external financial factors by officers. It should be noted that the scenarios offer a varied level of Council Tax increases set at levels that avoid the threat of council tax capping.
- 1.10.3 In view of the detailed analysis of the risks in this report it would be prudent at this stage to identify savings of approximately £1.9m. This



can be offset by the available opportunities identified in paragraph 1.6. This would require setting a target for savings, including the efficiency target, of £1.4m.

1.10.4 The capital programme has been recently reviewed and the current format was approved by Cabinet in May 2009. At this stage the most appropriate action is continued monitoring in relation to slippage in the scheme and its funding.

#### 1.11 Alternative Actions and Why Not Recommended

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

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 these and assess, at this early stage, the impact in future years. It is the purpose of this report to initiate discussion and to facilitate the opportunity for Members to raise issues and to include other issues in their initial projection. Regular updates will be presented to future meetings of the Cabinet to reflect discussions at this meeting and future meetings.

#### 1.12 Impact on Corporate Objectives

1.12.1 It is the purpose of the Budget Strategy to allocate resources to the key objectives of the Council, including resources identified for their achievement in other plans and strategies. It is necessary for Cabinet to be confident that their objectives, as set out in other documents, are fundable through the Budget Strategy.

#### 1.13 Risk Management

1.13.1 Matching resources to key priorities, in the context of Council Tax Capping and fixed central Government grants, is a major strategic risk. The early consideration of the issue is a significant factor in addressing this risk.

1.13.2 Specific budget risks and opportunities are identified in the report and will be addressed as part of the Budget Strategy Process. These factors will also be addressed as part of the current year's Budget Monitoring.

#### 1.14 Other Implications

1.14.1 Financial

X

X

X

Staffing

Legal

Social Inclusion

Considerations for Disabled Persons

Environmental/Sustainable Development

Community Safety

Human Rights Act

Risk Assessment

1.14.2 The Budget Strategy will impact on all areas of activity of the Council. The future availability of resources to address specific issues will be pre-planned through the Strategic Planning and Budget Strategy mechanism.

1.14.3 It is, therefore, important that Members give consideration to the potential levels of service delivery on key priorities through this process.

1.14.4 The process of developing the Budget Strategy will determine the level of resources available for staffing and will ensure that the setting of the Council Tax within legal requirements and statutory timetables is achieved.

1.14.5 It is apparent that the External Audit Assessment of the Council's arrangements will cover specifically arrangements for assessing and addressing environmental/sustainable development issues. Cabinet will be aware that this Authority has a Climate Change Plan in place which includes an Action Plan. Progress is reported to Cabinet twice a year.

Background documents

None

<b><u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u></b>			
Is this a Key Decision?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/>
If yes, when did it appear in the Forward Plan?		.....	
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
<u>Reason for Urgency</u>			