

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 18 December 2013

BUDGET STRATEGY 2014/15 ONWARDS - REVENUE

Issue for Decision

To agree a draft Council Tax and Budget Strategy for 2014/15 onwards.

Decision Made

- a) That the report and the financial settlement for 2014/15 be noted, and that the Officers be requested to bring forward additional savings proposals to meet the shortfall of £62,000 for presentation to Portfolio Holders and the Strategic Leadership and Corporate Services Overview and Scrutiny Committee in January 2014;
- b) That the Cabinet notes the earlier than anticipated significant reduction in Revenue Support Grant for 2015/16 and, in the light of the full review of the Council's Strategic Plan during 2014, requests proposals for prioritisation, transformation and commercialisation of services that reflect this reduction of resources at the earliest opportunity;
- c) That the provisional allocation of the local council tax support funding, as set out in Appendix B to the report of the Corporate Leadership Team, be notified to parish councils along with their tax base;
- d) That the proposed savings, as set out in Appendix C to the report of the Corporate Leadership Team, be agreed; and
- e) That the proposed actions with regard to the recommendations of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee, as set out in section 1.9 of the report of the Corporate Leadership Team, be agreed.

Reasons for Decision

On 11th September 2013 the Cabinet considered the initial budget strategy for 2013 onwards. At that time a strategic revenue projection (SRP) was agreed, including a provisional level of Council Tax as a planning and consultation tool. The agreed SRP included increases for inflation based on information provided by key officers and projection data from sources such as the office of budget responsibility.

The SRP that was agreed in September 2013 estimated resources at £19.1m and predicted expenditure including new budget pressures of

£20.5m, leaving a need to find savings in 2014/15 of £1.4m. At that time a number of risks were considered by Cabinet and these were:

- a) The government's spending round 2013.
- b) The consultations on: the use of capital receipts; potential changes to NHB; and additional reductions in the finance settlement 2014/15.
- c) The potential for developing a business rates pool.
- d) Council tax levels, including the effect of the offered council tax freeze grant.
- e) The level of income being achieved in the current year.
- f) A series of local pressures including King Street Multi Storey Car Park and the Local Plan.

It was reported that on the afternoon of the meeting the government had announced the provisional finance settlement. The settlement figures for 2014/15 are £62,000 less than the assumed figures used in the strategic revenue projection. Of this sum, £32,000 relates to the cap on business rates increase announced in the Autumn Statement and should attract S31 grant from the government. Confirmation of this grant has not been announced and the method chosen to reduce the Council's baseline funding suggests a single year grant similar to council tax freeze grant and this funding source should not be relied upon to cover the loss of funding in the medium term. Guideline figures for 2015/16 were also announced along with additional commentary about missing data that implied that the national funding level would reduce further in the time between now and 2015/16.

The Autumn Statement

The Autumn Statement is one of two major statements made by the Chancellor of the Exchequer each year. The other is the budget usually presented in March. The Chancellor presented the Autumn Statement to Parliament on 5th December 2013. This is later than in previous years and as a consequence has delayed the annual announcement by the government regarding the finance settlement to the afternoon of the meeting.

Issues important to local government in the Autumn Statement include:

- a) A second extension to the period of doubling of the small business rate relief (SBRR) by a further 12 months;
- b) While requiring some government departments to reduce spending by a further 1.1% in 2014/15 and 2015/16 there will be no similar pressure on local government. This is to support local authorities choosing to take the council tax freeze grant;
- c) Additional support to businesses through a number of special reductions in business rates;
- d) A cap on welfare spending (excluding job seeker allowance and pensions);

- e) The reversal of the proposed policy on top slicing new homes bonus (NHB), coinciding with specific requirements on planning authorities covered by penalties in relation to NHB and a full review of the NHB policy in 2014/15;
- f) Support of £300m to assist housing authorities to build new affordable houses. Enough to deliver a further 10,000 new homes.

The statement was linked to the latest office of budget responsibilities economic and fiscal outlook which was published to coincide with the Autumn Statement. This suggested that GDP was growing faster than previously predicted and is now forecast at 1.4% in the year compared to an earlier estimate of 0.6%. The growth is judged to be cyclical not underlying with increased productivity occurring mainly through additional hours worked. However the positive effect of this is reductions in the level of unemployment. The Chancellor suggested that the positive message had to be tempered by the challenges ahead and the planned austerity measures would still need to take place.

The implications of the Autumn Statement and the finance settlement that has just been announced are that further austerity measures will fall upon local government at a faster rate than previously assumed in the strategic revenue projection. The Cabinet has already identified a time in the future when the Council will need to have become self sufficient and the provisional finance settlement indicates that this time will arrive sooner than previously expected.

Review of Current Performance

The current year's financial performance is reported to the Corporate Leadership Team and to the Cabinet on a quarterly basis. The first two quarterly reports show a balanced position with projected outturn being at the level of budget with no major under or over spend.

The Leader of the Council has considered the use of balances again this year and a series of proposals to utilise the under spend from 2012/13 have been considered by the Strategic Leadership and Corporate Services Overview and Scrutiny Committee and with some minor changes have been approved.

Review of Revenue Resources

The finance settlement

As reported to the meeting the government announced the provisional finance settlement figures for the Council earlier that day. These were different to the figures set out in the report of the Corporate Leadership Team and for 2014/15 are as set out in the table below.

	£,000
Revenue Support Grant	3,274
Business Rates	2,933
Total	6,207

The figures tabulated above include the central funding towards local council tax support that replaced council tax benefit from 1st April 2013. At its meeting on 12th December 2012 the Council approved the current scheme in operation in the Borough. The funding for 2013/14 represented 90% of the government's predicted expenditure on council tax benefit, had that scheme continued in 2013/14. In 2014/15 the funding is not identified separately in the settlement and the total estimated settlement figure indicates a 13% decrease in overall funding. The December 2013 meeting of the Council considered the proposed scheme for 2014/15.

Part of this funding relates to the benefit paid to claimants in parish areas and the local scheme affects parish precepts in the same way as it affects the Council's income from council tax. The effect was considered by the General Purposes Group when it set the Tax Base for 2014/15. The government has confirmed that it expects appropriate consideration of the funding of parish councils to be made by district councils when considering overall funding levels. It has not legislated for the payment of this funding on to parishes.

The Council chose to pass on the funding to parish councils in 2013/14 and the resources totalling £110,631 were distributed on the basis of predicted demand for the local council tax support in each parish. This sum was greater than the need but was equivalent to the amount stated by central government as provided in order to support parish councils.

It is intended that a similar distribution occurs for 2014/15 albeit of the reduced amount of funding available of £96,802 based on the previously assumed reduction in overall funding. As the level of local council tax support granted is volatile the distribution made against the current year's tax base will not be in proportion to the distribution made against the 2013/14 tax base.

Appendix B to the report of the Corporate Leadership Team sets out the proposed distribution of the parish share based on current demand for local council tax support. The Appendix shows the tax base reduction due to LCTS and the 2013/14 band D charge by the parish. This product of these two figures creates the expected loss. Column 5 of the Appendix shows the individual amount proposed for payment to each parish. Columns 6 and 7 calculate the movement from the 2013/14 grant to identify the increase or reduction for each parish.

This estimate is the best available at this time and the Cabinet gave consideration to the views of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the apportionment of the local council tax support scheme funding to parishes before formal approval of the proposal. It was recognised that it would be helpful for parish councils to be given the provisional figures at this time so that they can continue to prepare their budget forecast for 2014/15 and set their local precepts.

Council Tax

The Council's current council tax charge is £226.62 per annum for a band D property.

At the meeting on 11 September 2013 the Cabinet agreed a SRP for planning purposes that included an assumed 2.9% increase in council tax income. This represented a 1.9% increase in the council tax charge and a 1% increase in the tax base arising from new property.

Since that meeting the Government has announced support towards a further council tax freeze. This announcement offers a grant equivalent to a 1% increase for two years and maintains the level at which a council would be required to conduct a referendum at a 2% increase.

On 11 December 2013 the General Purposes Group considered a tax base of 55675.1 for the borough area. This is a 0.94% increase over the tax base for 2013/14.

A council tax increase of 1.9% will produce a band D charge of £230.94. This represents an increase of £4.32 per annum or 36 pence per month. The maximum increase allowable within the referendum limit is 2% and an increase at that level would produce a band D charge of £231.12. This represents an increase of £4.50 per annum or 37.5 pence per month. This would provide an additional £10,000 annual income to the Council.

A decision on the level of council tax that the Cabinet would wish to recommend to the Council need not be taken at this time. It was noted that the revised SRP given at Appendix A to the report of the Corporate Leadership Team includes a 1.9% increase consistent with the increase set for planning purposes in September 2013.

The Cabinet also considered a report on the collection fund adjustment. The decision arising from that report was to distribute approximately £0.43m across the major preceptors and this Council. The share calculated for this Council is £70,705 and this can be added to the resources available from the council tax charge detailed above.

Combining the resources available to this council from the provisional finance settlement, the council tax income and the collection fund adjustment produces estimated resources for the period of the revised SRP as tabled below. The Cabinet noted that the level of resources available from revenue support grant given for the years 2016/17 and beyond assume an effect from the future spending review 2015 announced by the Chancellor in March 2013. Although a projection is given, no actual detail is available to suggest the rate at which the resources available to this council will reduce or whether the reduction will be seen through the revenue support grant or through another source of government funding.

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Revenue Support Grant	3,274	2,251	1,963	1,422	923
Business Rates	2,904	2,983	2,896	2,889	2,893
Collection Fund Adjustment	71	0	0	0	0
Council Tax	12,858	13,142	13,434	13,732	14,036
Available Resources	19,107	18,376	18,293	18,043	17,852

Review of Strategic Projection

When the Cabinet agreed the SRP in September 2013 officers were set the task of continuing to review the budget pressures and identify additional savings to balance the budget. Since that time officers have reviewed all of the pressures outlined in the SRP and it is now proposed that the following amendments should be considered.

- a) **Lost income from admin grant** – Both the council tax support and the housing benefit admin subsidy grants for 2014/15 have been announced and the reduction in total grant from 2013/14 to 2014/15 is £25,000. This is £105,000 less than the budget pressure included in the original projection. It is assumed that resources will be reduced further in future years so £75,000 of the original budget pressure has been slipped to 2015/16.
- b) **Additional Budget Pressures** – The original projection identified three ongoing pressures that required resource within the year. These were Market income, Advertising income and Development Management staffing. The Development management section is now undergoing a structural review that will be self financing. This will reduce the ongoing budget pressures to the remaining two issues totalling £51,000.

In addition to the proposed reductions set out in the paragraph above, there is one significant increased pressure that has arisen in the last month. This relates to the triennial valuation of the pension fund. Early indicators suggested that the movement in the fund would be minor. Now that final valuations have been published by the actuary it is clear that a positive result for the County, police and Fire authorities had disguised negative results for most district councils.

This Council currently pays £1.325m per annum in backfunding to support the deficit on the fund. The triennial review requires a payment of £1.427m in 2014/15 along with a 4.5% annual uplift in 2015/16 and 2016/17.

There are two alternatives available to the Council:

- a) Budget for this increase and add a further pressure to the revenue projection of £0.5m over the next three years;
- b) Keep the annual budget at £1.325m and use £0.5m from balances to fund the additional increase.

Considering the Council's current resources and longer term expectations a hybrid option is proposed. At this time balances currently include a sum of just under £0.8m remaining from the VAT reimbursements received in prior years. This sum is currently unallocated and could be partially used to make a one-off payment of £0.2m to the pension fund. In addition it is proposed that £50,000 of growth is built into the strategy for the next three years. This would mean that by the time of the next valuation a budget of £1.475m will exist. Given the predicted future improvement in the economy by 2017/18 this sum is expected to be sufficient as a base for the next triennial review.

In response to concerns expressed by district finance offices in Kent the pension fund actuary has agreed to provide annual assessments to assist with monitoring. This will be used in the budget strategy work for 2015/16 and 2016/17 to ensure the proposed funding is satisfactory.

These amendments, taken in combination with the revised assessment of resources available to the Council set a requirement to find savings in 2014/15 of £1.2m compared to the £1.4m requirement set out in the decision of Cabinet in September 2013. The values for each year of the SRP are set out in the table below:

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Available Resources	19,107	18,376	18,293	18,043	17,852
Projected Requirement	20,381	19,834	18,971	19,295	18,657
Savings Target	1,274	1,458	678	1,252	805

Review of Savings Proposals

Savings and efficiency data was not reported in detail to Cabinet in September 2013. The targets were set out and it was identified that some savings proposals existed, in the main these came from long term plans developed for the 2012/13 strategy. The September 2013 report suggested that, set against a need to find £1.4m in savings, plans existed to save £1.1m.

As stated previously, the revised SRP at Appendix B to the report of the Corporate Leadership Team shows a need to save £1.27m in 2014/15 and attached at Appendix C to the report is a more detailed analysis of the previously identified savings and other proposals that have been developed by officers in discussion with Cabinet Members. The value of these proposals, set against the required need for savings in each of the five years considered by the revised SRP, are tabled below.

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Savings requirement in SRP	1,274	1,458	678	1,252	805
Savings proposals	1,213	541	205	160	0
Savings still required	61	917	473	1,092	805

The savings proposals set out at Appendix C to the report of the Corporate Leadership Team include the values reported in the fees and charges report to the Cabinet. Since the announcement of the provisional finance settlement, the figures set out in the report of the Corporate Leadership Team are no longer adequate to set a balanced budget. It is therefore proposed that the Cabinet set a further objective and timescale for Officers to identify additional savings to balance the budget.

Strategic Leadership and Corporate Services Overview and Scrutiny Committee – Budget Working Group

At the meeting of the Committee on 3 December 2013 the budget working group reported back on the all member workshop on the budget strategy. From that meeting four recommendations have been made to Cabinet

with regard to future potential budget strategy savings. The SCRAIP is attached as Appendix D to the report of the Corporate Leadership Team.

It is intended that further work on the first three proposals be carried out by officers and reported back through the committee's budget working group.

With regard to the final recommendation it was the wish of the Cabinet Member for Corporate Services, at the meeting, for the review to be completed separately by the Committee and Cabinet to ensure that the views of each group are brought forward without influence. This to be followed by a joint meeting to review the results and discuss options.

New Homes Bonus

Along with the finance settlement, the government has announced the allocation of New Homes Bonus for the forthcoming year. This is the fourth year of the programme and the Council will receive an amount equivalent to last year's payment plus the new sum specifically for housing growth during the period October 2012 to October 2013. This totals £3.74m.

As part of the spending round 2013 the Government announced a consultation on options to top-slice all NHB payments to provide £400m towards a £2bn Growth Fund to be distributed to Local Enterprise Partnerships. In the Autumn Statement the Chancellor confirmed that this top slice would not go ahead, instead a full review of NHB would be carried out in 2014/15 with interim penalties that relate to the effectiveness of the planning process in each authority.

The Cabinet has already considered the future use of NHB resources and agreed that they should be set aside to support the Capital programme and the level of future funding is considered in the Capital Budget Strategy report.

Balances

The current level of general fund balance is £3.6m plus provisionally allocated sums of another £1.4m. After allowing for the proposal for use of resources to support the pension fund general fund balances will drop from £3.6m to £3.4m by 31 March 2015. A statement of balances is set out in Appendix E to the report of the Corporate Leadership Team.

For 2013/14 the Council has set a minimum level of balances of £2m and the Cabinet has agreed to set a working balance of £2.3m below which it is not expected that the Cabinet will utilise balances. This means that balances in the sum of £1.1m remain available for use.

Earlier in the discussion on the report of the Corporate Leadership Team, consideration was given to the Chancellor of the Exchequer's Autumn Statement and the Economic and Fiscal Outlook report of the Office of Budget Responsibility. Given the detrimental factors that will continue to face local government Cabinet was mindful of the level of resources and the potential need that the Council may have for those resources to

remain financially stable, before the current economic situation is resolved.

Consultation

Budget consultation is currently ongoing and the results of this work will be incorporated into the report to the Cabinet in February 2014 to enable consideration of the responses prior to a recommendation to the Council.

Medium Term Financial Strategy and Strategic Plan

The Strategic Plan refresh has been reported to the Cabinet. It provides feedback on performance against the outcomes required to achieve the priorities of the Council and gives Cabinet an opportunity to consider update actions. It is essential that Cabinet considers the Strategic Plan and this budget strategy at the same time as the information provided by the budget strategy enables Cabinet to consider the resourcing available for achievement of the proposed outcomes and provides the opportunity for Cabinet to amend either resourcing proposals or outcomes to balance plans and resources appropriately.

As the government had not announced the finance settlement for 2014/15 at the time of writing the report of the Corporate Leadership Team, the MTFS statement had not been updated and for that reason was not appended to the report.

Alternatives Considered and Why Rejected

The production of the budget is an element of the statutory process of setting the council tax each year. In addition the final document and budget is required to be robust and adequate under the Local Government Act 2003 and the Chief Financial Officer is required to give a statement to that fact. On this basis the actions outlined in the report of the Corporate Leadership Team must be considered and a balanced budget ultimately set by March 2014.

A number of the assumptions set out in the report of the Corporate Leadership Team remain uncertain and alternative options are possible. The main examples include:

- a) The indices used to calculate future inflation and contractual commitment – These indices are continuously updated and a revised set of values could be developed, however the level of change likely to occur is not significant and it is proposed that current resources will be re-prioritised if the level of growth allowed in any particular budget area proves to be insufficient.
- b) Savings – The identification of significant and deliverable savings is becoming increasingly difficult and monitoring of outcomes will need to be thorough during 2014/15. The proposals brought to the Cabinet's attention by Strategic Leadership and Corporate Services Overview and Scrutiny Committee demonstrate one way in which Members can become more closely involved in the formation and development of the budget strategy. In such cases the likelihood of

successful achievement will be higher if the proposals are incorporated into the budget strategy following member endorsement.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: 2 January 2014.
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