

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 11 September 2013

BUDGET STRATEGY 2014/15 ONWARDS - REVENUE

Issue for Decision

To give initial consideration to a Budget Strategy for 2014 15 and beyond

Decision Made

- a) That, for planning purposes, the "best estimate" strategic revenue projection as given at Appendix D to the report of Corporate Leadership Team be agreed.
- b) That an initial level of 1.9% Council Tax increase for planning purposes be agreed.
- c) That the proposed methods of consultation as set out in section 1.9 of the report of Corporate Leadership Team be agreed and delegated authority be given to the Chief Executive, in consultation with the Leader of the Council, to approve the focus and questions.

Reasons for Decision

The Medium Term Financial Strategy ("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. The report of Corporate Leadership Team reviewed the strategy specifically in relation to the revenue budget and considers options for the development of a five year strategy.

Since the approval of the current MTFS by Council on 27th February 2013 the Government has made announcements on the Budget, in March 2013 and the Spending Round, in June 2013. The announcements set out Government plans for the public sector in the future. A separate report from HM Treasury entitled "Investing in Britain's Future" provides further specific detail of importance to local government. Following on from these events the Government has recently released a series of consultations and specific guidance.

In addition, the current year is the first year of operation for the local council tax support scheme and the localisation of business rates. Cabinet needed to pay careful attention to the early indicators of performance in relation to both of these schemes.

The Council's MTFS and Strategic Plan are 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 the MTFS, links with the strategic plan require the assurance that the Council reaches a balanced budget and funding is available for the priority service areas set out in the Strategic Plan.

The report of Corporate Leadership Team firstly considered the context in which the MTFS for 2014/15 onwards is being developed. It then considered 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.

The Local Context – Revenue Expenditure

Attached at Appendix A to the report of Corporate Leadership Team is the budget summary for 2013/14. This was agreed at Council on 27th February 2013. The 2013/14 budget was developed from the work on the MTFS during 2012/13 and forms the base position for the consideration of the details set out in the report of Corporate Leadership Team.

Also attached to the report of Corporate Leadership Team for further information were the following:

- **Appendix B** – The currently approved MTFS for 2013/14 onwards;
- **Appendix C** – The statement of balances projected to March 2014

The outturn position for 2013/14 was reported to Cabinet in May 2013. The report showed a net under spend against budget of £0.275m, after allowance for carry forward requests approved by Cabinet at that time. The total under spend was £5.794m and a breakdown of the sum into its component parts is given in the table below.

	£,000
Total Under Spend	-5,794
Capital Support	4,410
Grants and Contributions	462
Carry Forwards	647
Net Under Spend	- 275

During 2012/13 Corporate Services Overview and Scrutiny Committee and the Leader of the Council considered a series of bids to utilise the net underspend in 2011/12. At the end of the process the approved bids amounted to £0.83m. In line with that decision bids have been requested for the 2012/13 under spend along with the balance still remaining from 2011/12. This totals £0.558m and consideration was given to the

proposals by Strategic Leadership and Corporate Services Overview and Scrutiny Committee before being approved by the Leader of the Council.

The budget set out at Appendix A to the report of Corporate Leadership Team for 2013/14 is a balanced budget because of the extensive work carried out in 2011/12 and the use of a flexible approach until February 2013 when the final funding settlement was provided by the Department for Communities and Local Government (DCLG).

Monitoring of the savings set out in the strategy for 2013/14 showed that there are difficulties that will need to be faced in order to ensure the outturn is within budget. Pressure remains on the budgets for homelessness and income generation continues to be weaker than expected in many areas. In most cases service managers have contingency plans to mitigate the pressures, such as reductions in planned expenditure, or are taking specific actions that have or will be reported to the relevant Cabinet Member in each case. Cabinet will be made aware of developments through the quarterly budget monitoring reports during 2013/14.

In considering the MTFS in earlier years Cabinet has already identified savings for 2014/15. Further work with officers and members since that date means that proposals totalling £1.2m exist and work is on-going to identify further savings.

These local factors contribute to a very stable base on which to build the 2014/15 revenue budget.

The National Context

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 spending review period ends in 2014/15.

In February 2013 the Government provided provisional figures for revenue support grant in 2014/15 along with an assumed value for the retained element of business rates. In the annual budget statement in March 2013 the Government then announced a further 1% reduction in public sector spending, including local government, for 2014/15.

In order for spending plans to be complete for the period up to the next general election, the Government has now completed a spending review for a single financial year, 2015/16. This is known as the Spending Round 2013 and was presented to Parliament by the Chancellor of the Exchequer on 26th June 2013. This has an impact upon both revenue and capital strategies.

In the spending round 2013 the Chancellor announced, for the public sector, a further cut in revenue spending of £11.5bn and growth of £3bn in capital spending in 2015/16. Within these sums there is an expected real-term reduction of 10% in local government funding that is available

direct from the Department for Communities and Local Government along with a reduction of 2.3% in funding from other departments.

The reduction that the Council can expect is hard to quantify as the local sum must consider the fact that within the overall reduction there is protection for a number of areas such as: Health and Education, along with growth available for some areas such as: Troubled Families; Schools; Police and Fire. It is difficult to estimate how these factors will influence the distribution of remaining resources. However the Local Government Association (LGA) has produced a "Funding Model" that enables each local authority to select from certain criteria and provide a local result from both the spending round and the 2014/15 reduction of 1%. This model has been used in the development of options set out in the report of Corporate Leadership Team.

Following on from the spending round announcement and the publication of "Investing in Britain's Future" the Government has commenced a number of consultations on its proposals. These include:

a) Proposals for the use of capital receipts from asset sales to invest in reforming services;

While such flexibility is welcome it should be noted that, as part of other changes, the Government has announced its intention to remove the capitalisation fund and leave only this option for local authorities who wish to capitalise permitted revenue costs.

To date the Council has not applied for permission to capitalise revenue costs and would only expect to do so to cover excessive costs of equal pay legislation or major redundancy from events such as moving to combined authority or unitary status. While shared service redundancies have been incurred these have been built into the business case for each service. Equal pay legislation has not been a major issue for this authority.

b) New Homes Bonus and the Local Growth Fund;

This proposal will affect many local authority revenue budgets but for this Council the effect will be on the funding available for the capital programme and will be considered in a separate report.

c) Local Government Finance Settlement 2014-15 and 2015-16;

This proposal deals with the national arrangements for the announced 1% reduction for 2014/15. In addition it considers options for the funding of the business rates safety net as the Government has reviewed and increased its estimate for demand upon the safety net funding.

The settlement figures set out in the consultation document have formed the basis of the funding assumptions used in the report of Corporate Leadership Team.

The Government has also announced:

a) A council tax freeze for 2014/15 and 2015/16

The announcement is similar to the freeze offered in 2013/14 at 1% for two years.

b) Changes to the regulations controlling a referendum for an excessive council tax increase;

The calculation of the increase percentage will, in the future, include rather than exclude any levying bodies charge. The Upper Medway Internal Drainage Board levies this Council.

Subject to the levy being an increase of no more than 2% there will be no effect on the Council. Last year the levy did not increase but the formula and effect of the levy was different to this proposal. The levy is notified to the Council in January each year (similar to parish precepts) however the Upper Medway Internal Drainage Board has committed to providing the details of the levy as early as possible and hopefully in time for the December 2013 meeting of Cabinet.

c) A further opportunity for local authorities to consider Business Rates Pooling;

Options for the pooling of business rates in Kent are being modelled at this time by Kent County Council on behalf of Kent Finance Officers and the outcome of that modelling work for the Council will be considered when available. Any pool of authorities that may be proposed by the modelling work will have until October 2013 to apply for pool status from the Government.

To date the effect on the economy of the Government's plan has not been as positive as expected. The economy has proven resistant to the efforts and tabulated below are the UK economic indicators of growth and national debt for the past five years.

	2009	2010	2011	2012	2013
					June
Growth	-3.6%	1.5%	0.7%	0.0%	0.4%
National Debt (trillions)	£0.62tn	£0.76tn	£0.91tn	£1.11tn	£1.20tn

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 2010	Mar 2011	Mar 2012	Mar 2013	June 2013
RPI	4.4%	5.3%	3.6%	3.3%	3.1%
CPI	3.4%	4.1%	3.5%	2.8%	2.8%
Base Rate	0.5%	0.5%	0.5%	0.5%	0.5%
LIBOR 1mth	0.237%	0.253%	0.241%	0.204%	0.190%

The Strategic Revenue Projection (SRP)

The strategic revenue projection (SRP) 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: a positive estimate; a best estimate and a pessimistic estimate. This enables Cabinet to compare the recommended model, the best estimate, with the range of possible outcomes.

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 set out individually below.

The three SRP are given at Appendix D to the report of Corporate Leadership Team. 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 to the report of Corporate Leadership Team. Where specific values are quoted in the report of Corporate Leadership Team they relate to the values calculated in the "best estimate" model unless otherwise stated.

It was recommended that Cabinet adopt the "best estimate" model as the planning tool used for consultation and future MTFS planning.

Significant Assumptions in the Strategic Revenue Projection

- Inflation Indices

These are considered in detail for their effect on the subjective elements of the revenue account. The budget for 2013/14 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 and these are then used to calculate the increased costs expected in 2014/15 and future years. These indices have been kept consistent across all three models of the SRP.

- Welfare Reform

The introduction of Universal Credit will mean a reduction in the number of housing benefit claims processed. It is expected that, as a consequence of this change, the Council will receive a reduced level of administration grant from Central Government in 2014/15. A further reduction has been assumed in the MTFS for the year 2016/17.

- Other Budget Pressures

During the current year the work on developing savings proposals has identified three major areas where budget pressures exist that cannot be resolved locally. Officers and members have all considered these pressures but each one has been reported as an over spend at outturn in the past. The pressures are:

- a) Maidstone Market £30,000 – the rental income budget from pitch rents has been too high for many years. While the market still returns a surplus against direct costs, the level of income is reducing and funding this pressure will make the budget an achievable expectation for the market manager.
- b) Advertising Income £20,000 – the income target from advertising was developed as a response to the commercialisation agenda and assumed income of £42,000 per annum. The proposal has had moderate success and does achieve a net return to the Council. Identifying and maintaining advertisers has required additional resources and the net surplus currently being achieved is £22,000. Until a core group of regular advertisers has been developed it is recommended that a lower target is set.
- c) Housing Homelessness Prevention £50,000 – due to the pressure on emergency accommodation work the team has difficulty achieving the target for homelessness prevention and it is proposed that additional resources to support this service are required. A full review of the success of homelessness support and advice activities will be carried out once all current plans are in place and can be reviewed.

- King Street Car Park

At present the car park is being demolished. It is the Council's current intention that the site will be finished as a surface car park for use until such time as a long term use is identified. Officers are actively considering other uses. The three SRP's make different assumptions about the possible sale of the asset and the loss of the car park income. The "best estimate" assumes sale part way through 2015/16 and the loss of the income generated by the surface level car park.

- Local Plan

The final contribution to funding of the Local Plan is identified as growth in 2014/15. This increases the permanent budget to £0.22m per annum.

- Income from Services

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 2013/14 Cabinet considered all fees and charges within a single report enabling decisions based on a corporate strategy that met the priorities set out in the Strategic Plan. It also enabled Cabinet to consider possible increases in light of the cumulative impact on residents through awareness of all proposed changes at the same time.

It is intended to provide the same single review of fees and charges for 2014/15. 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. Due to current projected outturn and the impact of the current economic climate it is not expected that this will generate a significant increase in fees and charges income for 2014/15.

- Revenue Support Grant (RSG)

The SRP that was developed for 2013/14 assumed future RSG receipts that are worse than the figures provided by the LGA's Funding Model. Whilst data is still being released on how a number of the Government's proposals will actually be achieved, it is felt that a value somewhere between the LGA figure and the previous year's assumptions for future RSG should be used. The three SRP models in turn have used the following figures:

- Positive estimate – the LGA's funding model values
- Best estimate – a hybrid of the LGA and local figures
- Pessimistic estimate – figures from the 2013/14 SRP

It should be noted that the LGA's funding model produces a value for RSG of less than £1m by 2018/19. It has also been stated by the Government that local authorities should prepare for the time when there is no direct grant of this type from Central Government. On this projection that time will arrive in 2020/21. It may occur sooner if the financial pressures are increased in the spending review that would follow a general election in 2015.

- Localised Business Rates

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 the provisional figures provided by central government and projected into the future using predicted levels of RPI. This inflation rate is used because the annual uplift in the business rates multiplier, as set nationally by central government, is aligned to RPI inflation. No account has been taken of the possibility that growth in business rates could provide additional resources at the end of 2013/14.

The projected outturn, following the completion of first quarter reporting for 2013/14, suggests that levels of business rates are within estimated tolerances for 2013/14. A reasonable assumption can be made that 2014/15 figures provided by the DCLG will be an acceptable estimate for 2014/15 with no risk of local circumstances influencing the figures.

- Council Tax

The level of council tax is affected by three factors. These are changes in the property base within the borough; increases in the charge set by the Council; and movement in the level of local council tax support provided.

All three SRPs include a council tax increase of 1.9%. This is based on the government announcement of the limit for excessive council tax increases of 2% and mirrors the increase approved for 2013/14. A 1.9% increase is equivalent to an annual increase of £4.31 for a band D council tax payer.

Two other factors have a major effect on the level of council tax income. These are the growth in the tax base and the level of demand for local council tax support, which replaced council tax benefit in 2013/14. The current prediction for growth in the tax base is in the region of 0.9% whereas the MTFS assumes growth of 0.5% per annum. In relation to demand for local council tax support during the first quarter of its operation it has remained stable whereas the MTFS assumes growth in demand of 2.4% per annum.

The three SRPs make varying assumptions related to the levels of growth in the tax base and in demand for local council tax support. The "best estimate" assumption is that predicted growth in the tax base of 0.9% will occur however growth in demand for local council tax support, while yet to be evidenced in 2013/14, will occur and remains at 2.4% of current caseload.

- Council Tax Freeze Grant

The Government has announced, as part of the spending round 2013, a further two years of Council Tax Freeze Grant set at 1% per annum. In addition the freeze grant for 2010/11 and the freeze grant for 2013/14 were both rolled in to revenue support grant.

The inclusion of the two years of freeze grant into the RSG figures was an expected event. It only relates to 60% of the total value as 40% had already been included in the retained business rates baseline. Members should note the expectation set out in paragraph 1.7.8 regarding future levels of RSG leading to a need for the Council to consider the time when it will need to become self-sustaining.

From 2014/15 the freeze grant formula will be based upon the full tax base before adjustment for local council tax support. On this basis 1% would provide a grant of approximately £0.14m in the short term. This compares to a 1.9% increase in council tax which would provide approximately £0.24m annually.

Savings & Efficiency

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.

The three versions of the strategic revenue projection attached as Appendix D to the report of Corporate Leadership Team produce the savings tabulated below:-

	2014/15	2015/16	2016/17	2017/18	2018/19
	£,000	£,000	£,000	£,000	£,000
Positive estimate	1,335	949	1,057	1,132	786
Best estimate	1,417	967	1,107	1,182	836
Pessimistic estimate	1,842	832	1,177	1,282	936
Savings Proposals	(1,171)	(224)	(130)		

The work completed on the MTFs to date means that some proposals already exist to achieve the required savings for 2014/15, 2015/16 and 2016/17. Based on the figures from the best estimate and allowing for the savings already proposed there is still a need to identify savings and efficiencies as follows:

Year	Saving
	£,000
2014/15	246
2015/16	743
2016/17	977
2017/18	1,182
2018/19	836
	3,984

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

- The Strategic Leadership and Corporate Services Overview and Scrutiny Committee's Budget Working Group;
- Proposals around income generation as part of the development of commercial opportunities;
- The review of fees and charges to be reported to Cabinet later in the year;
- Procurement activities such as a review of major contracts and category management;
- Ongoing reviews of new ways of working and staff structures.

At this time Officers, Cabinet Members and Overview & Scrutiny are continuing to identify proposals that will enable the Council to deliver a balanced budget over the period of this MTFs. Additional savings will be reported to future meetings of Cabinet.

Consultation

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

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

At this time the Head of Finance & Resources and the Head of Policy & Communications are assessing options for this year's consultation exercise and it was proposed that it be based upon the use of external market research and a website questionnaire, similar to last year.

Each year a standard question seeking the respondent's views on the Cabinet's current proposals is asked along with a standard request for new ideas that have not been identified by the Council. The key issues for the developing MTFS are consistent with last year and in preparing ideas for the focus of this year's consultation exercise the results of previous consultations should be reviewed.

- a) The consultation carried out at last year asked for views on the plans for a more commercial approach to income generation and the use of borrowing powers to acquire commercial assets. The proposals were generally supported. Negative comments relating to the ability of the Council to control the use of borrowing being the most common. The implemented proposals include the use of an advisory committee and a cabinet committee to consider and approve the business case for any proposal where prudential borrowing may be used and this mitigates the risk raised by the consultation.
- b) In 2010/11 and 2011/12 the consultation considered the public's view on discretionary services provided by the Council and low priority statutory services provided by the Council. The responses were a reasonable match to the priorities set out by Cabinet in the MTFS for those years.
- c) In 2009/10 the consultation looked at income generation and the use of increases in fees and charges to support service provision. In general the response supported the use of income from charges for services as a mechanism for achieving a greater level of self-sufficiency. There were concerns about paying through the Council Tax for services so charged and the proposals were seen as a benefit as non-tax payers would be required to pay for services provided where this was possible.

Along with the standard questions it was proposed that the focus of the consultation this year is kept light, in line with the approved consultation on the strategic plan. In preparing for 2015/16 a significant combined consultation can occur on both strategies.

The Council is required to consult with businesses as well as members of the public. It was proposed that this is completed through a set of arranged meetings where the Council's proposals can be presented and debated. Feedback from those sessions will be provided along with the results of the market research.

The questions and focus of the consultation requires further development of the Council's budget plans internally with Overview and Scrutiny and Cabinet Members. It was recommended that Cabinet agree to the principles of external market research and a series of business meetings and delegate approval of the specific focus and questions to the Chief executive, in consultation with the Leader of the Council.

Alternatives considered and why rejected

Cabinet could at this stage await clarity on the issues discussed in the report of Corporate Leadership Team. It was however felt prudent to agree a revenue projection at this stage to enable planning for the required savings and for consultation.

With reference to the specific issues and assumptions within the report of Corporate Leadership Team 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 task. 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 at a formative stage in the development of the MTFS.

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: 20 September 2013
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