AGENDA

AUDIT COMMITTEE MEETING

MAIDSTONE
Borough Council

Date: Monday 16 January 2012
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Butler, Field, Nelson-Gracie (Chairman), Warner and Yates

Continued Over/:

Issued on 5 January 2012

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEBBIE SNOOK on 01622 602030.** To find out more about the work of the Committee, please visit www.maidstone.gov.uk

Alison Broom

Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ

PART II

To move that the public be excluded for the item set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES (PART I) OF THE MEETING HELD ON 28 NOVEMBER 2011

Present: **Councillor Nelson-Gracie (Chairman) and Councillors Butler, Warner and Yates**

Also Present: **Councillor Garland and Mr S Golding – Audit Commission**

50. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Field.

51. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

52. NOTIFICATION OF VISITING MEMBERS

Councillor Garland indicated his possible wish to speak on a number of items on the agenda.

53. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

54. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

55. EXEMPT ITEMS

RESOLVED: That the items on Part II of the agenda be taken in private as proposed.

56. MINUTES (PART I) OF THE MEETING HELD ON 19 SEPTEMBER 2011

RESOLVED: That the Minutes (Part I) of the meeting held on 19 September 2011 be approved as a correct record and signed.

57. MATTERS ARISING FROM THE MINUTES (PART I) OF THE MEETING HELD ON 19 SEPTEMBER 2011

Minute 46 - Audit Commission's Annual Governance Report 2010/11

The Head of Finance and Customer Services advised the Committee that the External Auditor had issued an unqualified opinion on the 2010/11 financial statements.

Appointment of Independent Member of the Audit Committee

In response to a question by a Member, the Director of Regeneration and Communities updated the Committee on the efforts being made to recruit an Independent Member of the Audit Committee. It was noted that the latest approach was to ask the Federation of Small Businesses and the Invicta Chamber of Commerce to put forward nominations, and it was hoped that this would generate some interest.

58. INTERNAL AUDIT - SIX MONTHLY INTERIM REPORT

The Committee considered the report of the Head of Audit Partnership setting out details of the work of the Internal Audit team over the six month period April-September 2011. It was noted that:-

- A total of 17 audit projects had been completed during the six month period (one of which was a consultancy review of the use of a time recording system by legal staff).

- Each audit review included an assurance assessment in terms of the adequacy of controls. Of the seventeen projects completed during the six month period, one project identified that a high level of control assurance was in place at the time of the audit, seven projects identified substantial assurance and six identified limited assurance. There were no areas where minimal assurance was in place. Four further audit projects did not receive an assurance assessment as it was not considered to be appropriate to the scope of the project.

- A follow-up to each report was completed, usually three to six months after the date of issue of the original report. The follow-up allowed the adequacy of controls to be reassessed, and Management was expected to have taken the necessary action to address the control weaknesses before the follow-up was undertaken. All of the follow-ups confirmed that control assurance had been maintained at substantial or had increased from limited to substantial following the implementation of the agreed recommendations.

- The follow-up review of Licensing undertaken in June 2011 found that, due to a lack of effective management action, the limited control assurance identified in the original report issued in January 2011 had not changed. A second follow-up carried out on 3

November 2011 confirmed that virtually all of the recommendations had been fully implemented and substantial progress had been made. If this had not been the case, a separate report would have been submitted to the Committee and the Head of Service would have been asked to attend the meeting to explain the reasons why. Follow-up reviews of the Cemetery and Crematorium, security of artefacts at the Museum and the controls in place over three of the Council's community halls had confirmed that the level of assurance in each case had increased from limited to substantial.

In response to questions by Members, the Head of Audit Partnership explained that:-

- Processes were in place to make sure that control weaknesses identified by Internal Audit, but not addressed effectively by Management, were escalated and, if necessary, reported to the Audit Committee. In the case of the review of Licensing, implementation of the agreed Action Plan was accelerated after the issue was raised at Management Team. The Council had not been disadvantaged financially by the delay in implementing the recommended actions which related primarily to the partnership arrangements, the migration of licensing data to the computer hub based at Sevenoaks and the timetable for the transfer of licences, including Hackney Carriage and Private Hire taxi licences.

- He was surprised at the number of audit reviews which had identified that a limited level of control assurance was in place at the time of the audit, but he did not think that there was an underlying theme. Where the audit work identified areas where controls were in need of improvement, this was taken seriously by the responsible managers. The Internal Audit team tried to apply a consistent approach to their work which not only placed a strong emphasis on reviewing the adequacy of financial controls, but also addressed all aspects of internal control, including the controls in place to manage risks. Details of the costs and income associated with each service area examined could be included in summary reports in future to assist Members in their assessment of the relative significance of audit findings.

- Details of the dates when follow-ups were actually carried out and the reasons for any delays could be included in the Internal Audit Annual Report.

- In relation to the Interreg Mosaic Project, Internal Audit acted as the "First Level Controller" responsible for agreeing and signing off each claim for European funding. This was purely an audit role.

Arising from these responses, the representative of the Audit Commission advised the Committee that generally there had been an increase nationally in the number of limited levels of control assurance. This was an indication of the economic downturn, financial pressures and the possible relaxation in internal controls.

RESOLVED:

1. That the results of the work of the Internal Audit team over the period April-September 2011 as set out in Appendix A to the report of the Head of Audit Partnership be noted.

2. That it be noted that during the period April-September 2011, seven areas were audited where substantial or high control assurance was in place at the time of the audit and four projects did not have a control assessment.

3. That it be noted that six areas were audited where only limited control assurance was in place at the time of the audit.

4. That the improvement in the internal control environment, identified during the audit follow up process and detailed in Appendix D to the report, be noted

5. That it be noted that there are no important control issues arising from internal audit work which are outstanding and need to be brought to the attention of Members.

59. AUDIT COMMITTEE - MEMBER TRAINING AND DEVELOPMENT

Consideration was given to a report by the Head of Audit Partnership setting out a suggested training programme for Members/Substitute Members of the Audit Committee. The Committee was asked to decide whether completion of all elements of the programme should be mandatory.

RESOLVED:

1. That the content of the proposed training programme and the arrangements for its delivery be approved.

2. That all new Members/Substitute Members of the Committee must complete the induction training within six months of appointment to the Committee.

3. That all remaining elements of the training programme should be mandatory for new Members of the Committee and completed within the timescales set out in the report.

4. That Substitute Members of the Committee, as occasional attendees, should only be required to undergo induction training, but with the option of attending further training sessions.

5. That existing Members of the Committee should be updated regularly on changes to legislation and procedures etc. and receive refresher training.

6. That arrangements be made for Members to receive the training on a one to one basis if they are unable to attend a session.

60. PROTECTING THE PUBLIC PURSE

The Committee considered a report by the Head of Audit Partnership concerning an annual report published by the Audit Commission entitled "Protecting the Public Purse". It was noted that the purpose of the report, which was aimed at Councillors and senior Officers responsible for governance, was to bring together information compiled by the Audit Commission, on a national basis, relating to fraud against local government. The most recent report was published on 11 November 2011 and showed some alarming trends in terms of fraud, not least the significant increase in the value of fraud by staff. A report would be submitted to a future meeting of the Committee setting out the Council's arrangements for managing the risk of fraud and tackling fraud where it exists.

RESOLVED:

1. That publication of the Audit Commission's annual report on "Protecting the Public Purse" be noted.

2. That it be noted that a report will be submitted to a future meeting of the Committee setting out the Council's arrangements for fighting fraud.

61. TREASURY MANAGEMENT STRATEGY MID-YEAR PERFORMANCE 2011/12

The Committee considered the report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function for the 2011/12 financial year to date. It was noted that:-

- All investments had been on a short term basis to be used as agreed within the Council's Treasury Management Strategy for 2011/12;
- £3m of core cash funds were invested for one year with Lloyds TSB (part nationalised bank);
- The balance of investments as at 30 September 2011 was £26.275m;
- The average rate of interest received on the Council's investments over the period was 1.18% compared to a forecast level of 1.0% and investment income for the first half of 2011/12 was £150,000 compared to a budget of £125,000;
- A recent global downgrade in credit ratings from the Council's Treasury Management Advisers had led to changes in the level and term of investments to reduce exposure to risk.
- The Council was currently debt free so there was no need for long term borrowing.

5

In response to questions by Members, the Head of Finance and Customer Services explained the background to the decision to transfer the Council's banking arrangements to Lloyds TSB Bank.

RESOLVED:

1. That the activities of the Treasury Management function for the 2011/12 financial year to date be noted.

2. That no amendments to current procedures are necessary as a result of the mid-year review of Treasury Management activities.

62. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2010-11

The Committee considered the report of the Head of Finance and Customer Services setting out the Audit Commission's Annual Audit Letter covering the 2010/11 financial year. It was noted that:-

- The Annual Audit Letter provided a summary of the results of the Audit Commission's inspection activity at the Council during 2010/11. It gave an overview of the audit of accounts and the value for money opinion together with a review of current and future challenges.

- Overall, it was considered that the Council was performing well. An unqualified opinion on the financial statements had been issued together with an unqualified value for money conclusion. However, there were two issues that the Audit Commission had asked the Council to consider, these being the introduction of a specialist asset register system to deal with the more complex capital accounting requirements of International Financial Reporting Standards and the introduction of additional checks within the final accounts closedown process to ensure that the capital accounting entries were correct. The Officers were currently addressing these issues in preparation for the next assessment in 2012.

In response to a question by a Member, the representative of the Audit Commission advised the Committee that it was considered that the Council was reasonably on track in achieving its 2011/12 savings target and was well placed to address potential funding gaps identified over the lifetime of the Medium Term financial strategy. He added that consideration was being given to merging the Commission's Annual Governance Report and Annual Audit Letter in future.

RESOLVED: That the Audit Commission's Annual Audit Letter to Maidstone Borough Council be noted.

63. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following items of business because of the likely disclosure of exempt information for the reasons specified, having applied the Public Interest Test:-

	Head of Schedule 12 A and Brief Description
Minutes (Part II) of the Meeting held on 19 September 2011	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings
Exempt Report of the Assistant Director of Regeneration and Cultural Services – Maidstone Museum East Wing Development Review	3 - Financial/Business Affairs 5 - Legal Professional Privilege/Legal Proceedings

64. MINUTES (PART II) OF THE MEETING HELD ON 19 SEPTEMBER 2011

RESOLVED: That the Minutes (Part II) of the meeting held on 19 September 2011 be approved as a correct record and signed.

65. MAIDSTONE MUSEUM EAST WING DEVELOPMENT REVIEW

The Committee considered the report of the Assistant Director of Regeneration and Cultural Services updating the position with regard to the delays in the Maidstone Museum East Wing project and setting out a proposed brief for the review to be undertaken of the project. Having received replies to its questions, the Committee gave instructions to the Officers as to how it wished to proceed.

66. DURATION OF MEETING

6.30 p.m. to 8.45 p.m.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

16 JANUARY 2012

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by Paul Riley,
Head of Finance & Customer Services

1. BUDGET STRATEGY 2012/13 ONWARDS

1.1 Issue for Decision

1.1.1 On 21 December 2011 the Cabinet agreed an update for the Budget Strategy 2012/13 Onwards and referred that update to Corporate Services Overview and Scrutiny Committee for consideration.

1.1.2 As the remit of the Audit Committee includes consideration of risk it is also appropriate that the decision is considered by this Committee, with a specific emphasis on the consideration of the risk analysis produced for the Finance Sections service plan.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That the Audit Committee considers the risk assessment of the budget strategy provided at Appendix C and makes comment or recommendations to Cabinet for consideration in February 2012.

1.3 Reasons for Recommendation

1.3.1 On 21 December 2011 the Cabinet considered an update to the Budget Strategy 2012/13 Onwards. This update included a risk assessment of the financial issues contained within the report.

1.3.2 The report and original appendices are attached as **Appendix A**. The Cabinet's decision is also attached as **Appendix B**.

1.3.3 The risk assessment of the proposals outlined in the report is attached as **Appendix C**.

1.3.4 The risk assessment considers operational risks rather than strategic risks and as such the actions to mitigate these risks will form part of the service plan of the Finance Section for 2012/13 onwards. In some cases the risks will also be reflected in other service plans.

1.3.5 In considering a similar report last year on the risks for 2011/12, the committee requested that further financial detail be included in the assessment. This has been provided within Appendix C and, where the risk can be valued, should place each risk in context financially.

1.3.6 In addition the committee was interested in the possible mitigation that may be taken. As these risks are essentially operational rather than strategic, the actions to mitigate them form part of the Finance Sections service plan. Detailed below are the key elements of the monitoring and control processes in place to identify the emergence of factors that trigger these risks:

a) The key control is monitoring and reporting of the budget throughout the year. A reporting process exists that ensures budget managers receive monthly reports and Cabinet and Management Team receive quarterly reports.

b) The Constitution also requires additional reports on the under recovery of income where this is greater than £40,000.

c) All of these reports are produced with full accrual of the cost of works or goods received but not paid for at the effective date. They are therefore as accurate as possible.

d) The monthly management reports are produced within 10 working days making them as timely as possible and reports to Management Team and Cabinet are made for the next available meeting.

e) The quarterly reports to Cabinet and Management Team identify all necessary actions that must be taken to resolve developing problems. The reports also consider other major balance sheet items such as collection rates and investment levels.

f) Officers and senior members have well developed relationships with organisations similar to this Council, such as through the Kent Finance Officers' Association. These relationships ensure a broader range of information flow to and from the Council on financial matters.

g) The Committee will be aware of a number of governance controls in place including the Corporate Governance group and the Council's relationship with the Audit Commission which take a high level overview of the controls in place to mitigate these risks.

h) The Council has contractual relationships with advisors such as Sector Treasury Management who advise the Council on specific projects. Also, through links to the Kent Finance Officers' Association, to other advisors who provide specific analysis of major issues such as business rates retention.

1.3.7 With monitoring such as this in place the Council is well placed to recognise and act upon emerging triggers. The mitigating action taken in each case will be the most appropriate and, depending on the level of risk or value of the consequence, may be reported to the relevant Cabinet Member or to Cabinet for approval of the necessary actions.

1.4 Alternative Action and why not Recommended

1.4.1 There is no constitutional requirement for Cabinet to consult with the Audit Committee on this matter. However, the Audit Committee's role in consideration of risk and governance make it appropriate that the Committee considers the risks identified in such a significant strategy and make recommendation to Cabinet regarding the assessment.

1.5 Impact on Corporate Objectives

1.5.1 The budget strategy is developed to complement the Strategic Plan and resources identified within the strategy are focused on delivering the Council's corporate objectives. Any failure to identify and adequately mitigate a risk within the strategy may have a direct consequence on the delivery of a corporate objective.

1.6 Risk Management

1.6.1 Risks identified within the strategy will be monitored by the Finance Section as part of their service planning objectives. Any risks not identified will not be monitored and could increase the possibility of failure of the strategy.

1.6.2 The risks identified are comprehensive and have been subject to debate with Internal Audit, Management Team and Cabinet and are now to be debated by Audit Committee. If unidentified risks remain following this review the Council's budget monitoring process will still provide an early warning to enable satisfactory action to be taken.

1.7 Other Implications

1.7.1

1.	Financial	
2.	Staffing	

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

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Budget Strategy 2012/13 Onwards, report to Cabinet 21 December 2011.

Appendix B – Record of decision of Cabinet 21 December 2011.

Appendix C – Risk Analysis

IS THIS A KEY DECISION REPORT? **THIS BOX MUST BE COMPLETED**

Yes ☐ No ☒ X

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

This is a Key Decision because: ……………………………………………………………………..
…….

Wards/Parishes affected: ……………………………………………………………………………..
……..

1.8.2 Background Documents

None

MAIDSTONE BOROUGH COUNCIL

CABINET

21 DECEMBER 2011

REPORT OF CORPORATE LEADERSHIP TEAM

Report prepared by Paul Riley,
Head of Finance & Customer Services

1. BUDGET STRATEGY 2012/13 ONWARDS

1.1 Issue for Decision

1.1.1 This report allows Cabinet to consider the previously agreed budget strategy in the context of the provisional formula grant settlement announced on 8th December 2011 and any changes that have occurred to national and local circumstances since the previous consideration by Cabinet in September 2011.

1.1.2 The report will also update Cabinet on proposals for changes to the strategic projection and savings proposals as a result of their request for continued work to ensure a balanced budget can be developed.

1.1.3 Cabinet can then update its proposals for the budget strategy in order to formally consult Corporate Services Overview and Scrutiny Committee. Cabinet can consider the comments of the Overview and Scrutiny Committee in February 2012 whilst considering the appropriate recommendations to Council.

1.2 Recommendation of Corporate Leadership Team

1.2.1 That Cabinet agree the revised strategic revenue projection at **APPENDIX B** which incorporates the changes outlined in section 1.8.

1.2.2 That Cabinet agree the proposed savings for 2012/13 Onwards, as detailed in **APPENDIX C**.

1.2.3 That Cabinet agree the proposed use of the New Homes Bonus as outlined in section 1.11 and await a further report on the use of the balance of that funding.

1.2.4 That Cabinet do not set a capital programme for 2015/16 at this time and await a report from officers on prioritisation of options once the infrastructure delivery plan is sufficiently detailed for evaluation.

1.2.5 That Cabinet note the issues relating to revenue resources including the council tax levels, the tax base and the provisional revenue support grant as set out in section 1.7.

1.2.6 That Cabinet note the results of the budget consultation and agree to consider the issues identified for future years of the medium term financial strategy and the strategic plan following further work by officers in 2012/13.

1.3 <u>Executive Summary</u>

1.3.1 The Government announced the proposed level of Revenue Support Grant (also known as Formula Grant) for Maidstone Borough Council on 8th December 2011 and this is equal to the assumption in the September 2011 budget strategy report at £5.7m. This is a 12% reduction in this grant.

1.3.2 Council Tax levels consistent with a 2.5% increase in the Council Tax charged are built into the strategic Revenue projection at this time. This is equivalent to the Government's offer of a second one year council tax freeze grant and no decision needs to be made at this time about whether to freeze or increase Council tax.

1.3.3 The strategic revenue projection agreed, for planning and consultation purposes, by Cabinet in September 2011 identified a need to find £1.861m in savings to produce a balanced budget for 2012/13. Since that time work by Members and Officers, to ensure the delivery of a strategy that enables a balanced budget to be recommended to Council in February 2012, has brought about the following amendments:

a) Reductions in the budget pressures identified in the strategic revenue projection totalling £0.26m
b) Increases in the proposed savings of £0.32m
c) Increased income from fees and charges of £0.15m

The net result of these changes enables a balanced budget to be proposed at this time.

1.3.4 The capital programme has been amended during the year by Cabinet to enable the essential works to the heating system at the Hazlitt Theatre and to provision a potential overspend on the Museum extension. By using revenue balances to fund these schemes there has been no adverse effect on the programme agreed by Council in March 2011.

1.3.5 At this time there is no proposal to develop a programme for the year 2015/16 as it is essential to understand the requirements of the infrastructure delivery plan; prioritise those requirements along with other proposed schemes and understand the mechanisms for funding. Funding options include Community Infrastructure Levy, New Homes Bonus and Borrowing. These issues will develop during the last quarter of 2011/12 and into 2012/13 and a report will be brought to a later Cabinet meeting once the funding and scheme proposals are clear.

1.3.6 Additional and unplanned receipts of a capital nature have enabled a reduction in the projected level of borrowing required by the current programme in 2014/15. This report makes a proposal to use New Homes Bonus to support the Capital programme and reduce the risk presented by assumed receipts from as yet unsold assets. This means that the need to borrow can be overcome during the period of the capital programme.

1.3.7 The amended estimate of general balances as at 31 March 2012, taking into consideration all changes that have occurred during 2011/12 to date, is predicted to be £3.593m.

1.4 Reasons for Recommendation

1.4.1 At its September 2011 meeting Cabinet considered the initial budget strategy for 2012/13 onwards. It agreed a strategic revenue projection, a level of council tax for use in planning and consultation on the budget and the method by which consultation would be carried out.

1.4.2 The key assumptions made in that initial projection set separate indices for inflation, for contractual commitments and for business rates. It assumed no increase in general inflation for supplies and services budgets and set no provision for a pay award. In addition Cabinet chose to set no general target for increases in income so that a review of fees and charges could be completed in line with the Council's corporate policy on fees and charges. This work has resulted in a separate report to Cabinet that is elsewhere on this agenda.

1.4.3 The budget strategy for 2011/12, which was developed last year, identified £0.7m in budget pressures for 2012/13. However the strategic revenue projection approved by Cabinet in September 2011 increased this sum to £1.4m.

1.4.4 The strategic projection assumed a 2.5% increase in Council Tax along with a 0.5% increase in the tax base, giving a 3% increase in income from Council Tax. In addition revenue support grant assumptions were based upon the guideline figures provided by central government with the 2011/12 settlement figures in February 2011.

1.4.5 A number of risks were considered, in the main these were related to assumptions in the strategic revenue projection, including:

a) The risk surrounding the current pay structure and the effect of equal pay legislation;
b) The potential effects of the Welfare Reform Bill on Council Tax benefit and the housing benefit service;
c) The consequences to the future years of the budget strategy from a further Council Tax freeze grant arrangement;
d) The Formula Grant settlement and the possible consequences of the slower than expected growth forecasts.

1.4.6 The capital programme was also considered. Cabinet had amended the programme during the year to include funding for works to the heating systems at the Hazlitt Theatre and the creation of a reserve to support the potential additional cost of the Museum extension. These items were both funded from revenue balances.

1.4.7 Although no proposals for the continuation of the programme for a further year were considered at that time. The report showed that due to the level of miscellaneous and small receipts into the capital programme the risk of borrowing in 2014/15 had significantly reduced.

1.4.8 The risks that remain for the capital programme is the delivery of the capital receipts from the approved asset sales both to time and at assumed value. These risks continue to exist and will have a consequential effect on the need to borrow to finance the current programme.

1.4.9 Since the time of that initial report and consideration by Cabinet a number of important factors have changed, further announcements from central government have occurred and members and officers have continued to work on identifying the amendments required to ensure a balanced budget is achieved. It is an appropriate time for cabinet to review the strategy and for the result of this review to be considered by Corporate Services Overview and scrutiny Committee.

1.5 <u>Economic Background</u>

1.5.1 The international financial climate continues to have a significant effect upon the country and this effect can be seen in the levels of activity and demand for services in Maidstone.

1.5.2 The Council's treasury management advisors have reported a series of downgrades in the credit ratings on an international scale. This has had the effect of reducing the range of institutions with which the Council can invest. This could potentially reduce the return on investment that can be obtained.

1.5.3 The economic indicators for October 2011 all show adverse movement since the indictors for October 2010, which were reported to Cabinet last year when considering the budget strategy.

a) The consumer price index has risen to 5.0% (3.2%, October 2010);
b) The retail price index has risen to 5.2% (4.5%, October 2010);
c) In the quarter to September 2011 the economy grew by 0.5% (0.8% September 2010);
d) The deficit at October 2011 is £966.5bn which is 62.3% of GDP; and
e) Unemployment has risen to 8.3% (7.7% September 2010)

1.5.4 The Council's front line services, such as housing benefit and homelessness, have all seen increases in demand, generating additional cost pressures.

1.6 Review of Current Performance 2011/12

1.6.1 The current financial year's performance is reported on a quarterly basis to Management Team and to Cabinet. The first two quarterly monitoring reports for 2011/12 show a reasonably stable under spend against profiled budget of just over £0.4m.

1.6.2 The capital programme approved by Council in March 2011 has been amended by Cabinet to incorporate an additional scheme to upgrade the heating system at the Hazlitt Theatre, this was funded by the use of some of the 2010/11 underspend that was transferred to balances at the end of that year. In addition Cabinet considered a report on the Museum Extension and agreed that a provision against a potential overspend on that scheme should be held in balances.

1.6.3 Capital funding has been increased by two unexpected asset sales and a receipt from Golding Homes from right to buy sales. At the same time two predicted assets sales have been adjusted, one has been reduced in potential value and one has been slipped into future years. The current programme is still affordable, subject to the planned asset sales providing the expected receipts. The level of borrowing still projected for 2014/15 has reduced slightly.

1.6.4 Following the decisions on the use of balances by Cabinet during the year, balances remain at a satisfactory level. The minimum level of working balances set by Cabinet is £2.3m and before any further possible adjustments the expected level of balances at 31st March 2012 is £2.8m. In addition to this value there is over £1m of balances provisionally set aside for specific uses.

1.6.5 Along with the quarterly budget monitoring reports, Cabinet has received quarterly performance reports. The performance report to September 2011 shows that over 73% of KPI and LPI are forecast to end the year at or above target.

1.7 Review of Revenue Resources

1.7.1 **Formula Grant**

1.7.2 On 8th December 2011 the Government announced the 2012/13 provisional formula grant settlement for consultation. The provisional grant for Maidstone Borough Council is £5.703m, which is identical to the advance notification received in February 2011 along with the confirmation of the 2011/12 formula grant.

1.7.3 The reduction in grant, when compared to the grant received in 2011/12 is 12%. However the government measures the reduction in terms of "revenue spending power". The Council's reduction, measured on this basis, is less than the Government set maximum of 8.8%.

1.7.4 This announcement is for consultation and the Council is able to comment only on the factors used in the formula, such as population and tax base. However the Council's grant is restricted by damping and the Council is in the highest damping group. Any changes successfully obtained through the consultation process are unlikely to affect the grant after damping.

1.7.5 This is expected to be the final year of formula grant and the government has already consulted on the planned localisation of business rates. The scheme should be in place for the 2013/14 financial year. The Council has responded to the consultation.

1.7.6 **Council Tax**

1.7.7 The Council's current Council Tax charge has been stable for the two years 2010/11 and 2011/12. The Council's band D rate of tax is £222.39.

1.7.8 In 2011/12 the Council set a zero percent increase and is now in receipt of Council Tax freeze grant of £0.335m per annum for the four years 2011/12 to 2014/15. In 2015/16 the strategic revenue projection identifies the loss of this grant as a budget pressure.

1.7.9 At its September 2011 meeting Cabinet agreed a strategic revenue projection for planning and consultation purposes that included an increase in Council Tax income of 3%. This represented a 0.5% increase in the tax base and a 2.5% increase in the Council Tax.

1.7.10 A 2.5% increase in the level of Council Tax, for Maidstone Borough Council's element of the charge, equates to £5.56 per annum for a band D tax payer. This is 10.7 pence per week. This is because the borough council charge is only 15% of the total charge. The value of a 2.5% increase at band D for each preceptor is detailed in the table below.

Tax Charges	2011/12 Precept	2011/12 Band D	2012/13 if +2.50%	Increase Yr on Yr	% Effect on tax bill
	£	£	£	£	%
Maidstone Borough Council	13,410,811	222.39	227.95	5.56	0.38
Kent County Council	63,184,382	1,047.78	1,073.97	26.19	1.77
Kent Police Authority	8,362,834	138.68	142.15	3.47	0.23
Kent & Medway Fire	4,097,596	67.95	69.65	1.70	0.12
		1,476.80	**1,513.72**	**36.92**	**2.50**

1.7.11 Since that meeting central government has announced a second phase of Council Tax freeze grant. However this grant is for one year only, 2012/13. The grant would have a value equivalent to a 2.5% increase in Council Tax.

1.7.12 The grant for this second phase is greater in value than the grant for the first phase because of the increase in the tax base. On 14th December 2011 the General Purposes Committee agreed a tax base of 60,985.3 which is 1.1% greater than the tax base for 2011/12. As stated above the strategic revenue projection agreed by Cabinet in September 2011 included a 0.5% increase in the tax base.

1.7.13 The decision not to increase Council Tax in 2011/12, leading to the acceptance of the Council Tax freeze grant, has had a significant impact on the Council's future financial situation. As an indicative example, for the ten years 2011/12 to 2020/21, allowing for the receipt of the grant for years and compounding at 2.5% the foregone revenue totals £2.4m.

1.7.14 The second phase of the Council Tax freeze grant will have a greater impact over the same time period. This is because it is a larger sum and the grant is only available for one year. Projected forward to 2020/21 the foregone revenue is £3m.

1.7.15 Should the Council choose to accept the Council Tax freeze grant for a second year, the future net revenue resource foregone would total £5.5m by 2020/21. The full calculation of this sum is attached to this report as **APPENDIX A**

1.7.16 A decision on the level of increase in Council Tax need not be taken at this time. The income in 2012/13 from accepting the Council Tax freeze grant is equivalent in value to the 2.5% increase in Council Tax built in to the current strategic revenue projection. The effect of the Council deciding to take the freeze grant will become a budget pressure in 2013/14. Cabinet may wish to consider the issue further, await the views of Corporate Services Overview and Scrutiny Committee in January 2012 and make a final decision on a recommendation to Council at the February 2012 Cabinet meeting.

1.7.17 Elsewhere on this agenda Cabinet has considered a report on the Collection Fund adjustment. The recommendation of that report was a nil adjustment for 2012/13. Combining this proposed value with the formula grant settlement and the Council Tax level gives the budget requirement for the Council. This value for each year of the strategy is given in the table below. In order to achieve a balanced budget, these are the maximum values for net revenue expenditure that the Council can budget for in the years from 2012/13 onwards.

	2012/13 £,000	**2013/14 £,000**	**2014/15 £,000**	**2015/16 £,000**	**2016/17 £,000**
Formula Grant	5,703	5,635	5,207	4,947	4,700
Collection Fund Adj.	0	0	0	0	0
Council tax	13,902	14,319	14,749	15,191	15,647
Budget Requirement	**19,605**	**19,954**	**19,956**	**20,138**	**20,347**

1.8 <u>Review of Strategic projection</u>

1.8.1 Since Cabinet agreed the strategic revenue projection in September 2011 officers have continued to work on balancing growth and savings to ensure a balanced budget is achieved.

1.8.2 A number of budget pressures outlined in the strategic revenue projection have been considered and it is proposed to modify the strategic projection as follows:

a) **Local Development Framework (LDF)** – Officers have completed the required analysis of funding for the LDF. The estimated level of expenditure has not changed, however management action has identified additional resources, from within base budgets and agreed carry forwards and these provide an additional £0.13m. The overall result of this work is that the three year programme previously reported to Cabinet now requires funding of £0.77m rather than the £0.9m previously reported. It is proposed that the budget pressure be reduced in 2012/13 by £0.13m to £0.17m. This approach would add an immediate need for £0.13m in 2013/14 to ensure a total resource of £0.77m is identified by 2014/15. It is intended that officers will review progress on the LDF budget annually for consideration as part of the budget strategy process.

b) **Interest on Investments** – the Council's Treasury Management Strategy ensures that risk takes precedence over reward in investment decisions and declining interest rates have meant that the level of income received from investments has declined in recent years. In addition the advice received from the Council's treasury management advisors has reduced the range of institutions with which the Council invests. In contrast the Council's cash flow is healthy. Resources held in balances and for the capital programme mean that the interest from investment is expected to be resilient to these pressures and the current budget pressure of £80,000 will not be required.

c) **Car Parking** – the strategic revenue projection has provisioned an annual reduction of £50,000 in income levels. This is intended to support any actions taken as part of the developing parking strategy and, in recent years, as protection from the effects of the recession on demand. It is proposed that this provision is removed and, for future years, this budget pressure is linked to the development of the actual parking strategy and any budget pressures are brought forward in specific detail.

1.8.3 In addition to the proposed reductions detailed above, there are two service areas where additional pressures are developing.

a) **Housing Homelessness** – the continuing economic climate has had a negative impact through increasing demand for this service. The work of the team on both homeless prevention and temporary housing costs for the homeless have increased significantly during 2011/12. An assessment of the current levels of service suggests a net annual increase of £60,000 is required. This would maintain, into the future, the level of provision that exists today. In addition to this action management are reviewing alternative methods of provision that may reduce this cost in future years and will be the subject of a report to Cabinet during 2012/13.

b) **Economic Development** – this is a priority service, identified as the only service area where the Cabinet expected to see growth. The service has been set a series of priorities for the future as part of the development of the strategic plan. This work is currently undertaken by staff who are on fixed term contracts that terminate in the near future. No base budget funding exists for this service and the activity is currently resourced by various one off funding sources. The funding required for the two posts on fixed term contracts totals £70,000. During 2012/13 the fixed term contract for one post expires at a cost of £30,000, the second end in 2013/14 at a cost of £40,000. The pressure in 2012/13 would therefore be £30,000.

1.8.4 These amendments give a net reduction in the pressure on the budget strategy of £0.17m. Along with the changes to the tax Base discussed under the revenue resources section of this report, the budget pressure for 2012/13 is now £1.602m. The savings targets created by the pressures, as amended, for each year of the strategic revenue projection are tabled below. Cabinet should note that, if the Council Tax freeze grant is accepted for 2012/13, the savings target for 2013/14 will increase by £0.34m.

	2012/13 £,000	**2013/14 £,000**	**2014/15 £,000**	**2015/16 £,000**	**2016/17 £,000**
Budget Requirement	19,605	19,954	19,956	20,138	20,347
Predicted Budget	21,207	21,187	21,154	21,057	20,832
Saving Required	**1,602**	**1,233**	**1,198**	**919**	**485**

1.8.5 A revised strategic revenue projection is attached to this report as **APPENDIX B**

1.9 <u>Review of Savings Proposals</u>

1.9.1 The savings proposals reported to Cabinet in September 2011 have been reviewed along with the growth items detailed above. This forms part of the review of growth and savings to ensure a balanced budget can be proposed.

1.9.2 The savings proposals reported to Cabinet in September 2011 totalled £1.131m. The following actions have since been taken by officers: reviewing the level of savings available from each proposal; considering the possibility of bringing forward any actions proposed for future years; considering any new proposals and reviewing the level of fees and charges income. The review of fees and charges has resulted in a report elsewhere on this agenda which is summarised in a later section of this report. The other actions have resulted in the following changes to the savings proposals:

a) **Amended savings levels** – in the case of the revenues and Benefits Partnership and Finance and Customer Services, amended savings levels have been proposed.

b) **Proposals brought forward** – changes to the Policy and Scrutiny Team, changes to the Democratic Service Team, Delivery of savings in the Waste and Recycling Service, changes to the ICT Team and changes within the Finance Team have all been brought forward from future years.

c) **New proposals** – the increases from new proposals are all minor issues as major ideas are already identified in the strategic projection of savings. New proposals have come from the Audit Partnership and Democratic Services.

1.9.3 The increase in the value of savings proposals from these actions is £0.32m. A summary of the current savings proposals is attached to this report at **APPENDIX C.** An amended structure for this appendix allows Cabinet to see clearly whether the saving is in the service, structure or income budgets. This format will enhance the monitoring of the delivery of savings during 2012/13.

1.9.4 Cabinet should note that the detailed analysis in APPENDIX C represents the proposals delivered as well as planned, for 2012/13. An example of this is the savings delivered by staffing changes in Revenues and Benefits. The shared service delivered all expected savings in an earlier than planned phase of its development and the savings have been held to meet the needs of the budget strategy. This has had no adverse impact on service delivery.

1.9.5 The savings proposed from the partnership based new contract for waste services is identified in the proposals at the lower end of the range of possible savings. At this time in the development of the new services it is considered prudent to plan only for the lowest level of benefit.

1.9.6 The savings proposals do not, at this time, include the planned changes at the Hazlitt Theatre. A business case is being considered for the most appropriate method of future service delivery. It is expected that this will deliver the hope for reduction in the subsidy provided to the Theatre by the Council. Following a future report to cabinet, any savings that can be released will be built into the 2013/14 budget strategy.

1.10 Other Income

1.10.1 As part of the approval of the strategic revenue projection, Cabinet took the decision to not set a corporate target for increases in income from fees and charges. The Council has a corporate policy on fees and charges and the Cabinet decision enabled the use of this policy to guide officers to the most appropriate levels of fees and charges. The results of the officer review is reported elsewhere on this agenda and that report recommends the adoption of new fees and charges for some services that will deliver an additional £0.15m of income. This enhances the reduction in the budget pressure detailed earlier in this report.

1.10.2 The Council also receives income from the rent and lease of land and buildings. The majority of these are on agreements that enable occasional negotiation and uplift. Opportunities to negotiate increases in rents and leases are being considered by the Property Services Manager for inclusion in future years of the strategic revenue projection.

1.10.3 The final category of income is from grants and contributions. At this time, given the economic climate and the reduction in funding seen throughout the public sector there is little opportunity to identify permanent increases in this income source. One off increases would not form part of the budget strategy as there is no guarantee of future funding from one off grants. The focus of the officers involved in developing this source of income remains mainly fixed upon the Museum and Social Housing at this time.

1.11 New Homes Bonus

1.11.1 The Government recently announced the New Homes Bonus (NHB) allocation for 2012/13. This Council will receive an allocation that is slightly lower than the value of the 2011/12 payment. In addition it receives the second year of the 2011/12 allocation and the first year of the affordable homes premium. In total the Council is due to receive just under £1.8m in 2012/13. The detailed breakdown of this figure is given in the table below.

	£
2011/12 Allocation	892,316
2012/13 Allocation	825,216
Affordable Homes Premium	78,120
Total Due 2012/13	**1,795,652**

1.11.2 This payment is a rolling grant that should be maintained by central government for a period of six years.

1.11.3 Cabinet should note that the Government also announced that the total allocation is £6m more than the resources available and a claw back would be necessary from a top slice of the baseline for localised business rates in 2013/14.

1.11.4 Government consultation on the localisation of business rates has proposed the top slicing of the business rates baseline. The amount top sliced should be the Government's calculated overspend during the full six years of the programme. This means that future payments of NHB may be significantly reduced and this announced £6m over allocation will be a small element of that top slice.

1.11.5 At this time it is recommended that future NHB payments be treated as uncertain, due to the fact that they may, in part, need to supplement the receipt of localised business rates in future years. At this time the most appropriate use of this money is for major time limited projects.

1.11.6 An effective use of the resources would be to mitigate the cash flow risks currently inherent in the capital programme. As Cabinet is aware the programme relies for resources on identified but as yet unsold assets. Using the NHB payment to substitute for the value of the unsold assets in the medium term will mean that the funding need covered by the unsold assets will slip into future years of the programme and the opportunity to gain best price for the assets is improved.

1.11.7 If Cabinet agree this action approximately 10%, £0.18m, of the NHB payment would be available for other uses. It is recommended that this money is placed in balances and a report is brought to the January 2012 Cabinet meeting on potential uses of this money.

1.12 <u>Capital Expenditure</u>

1.12.1 The capital programme agreed by Council in March 2011 has been modified by Cabinet during the year. Slippage of £0.684m between 2011/12 and 2012/13 has been agreed. Although this slippage changes the profile of the programme it does not change the underlying value that the Council must resource. In addition Cabinet has approved a scheme to upgrade the heating system at the Hazlitt Theatre and has set aside a provision against potential overspend on the Museum Extension. Both of these schemes were funded from identified revenue balances and have not altered the funding requirements of the programme.

1.12.2 At this time the capital programme ends in 2014/15. A number of projects can be considered to create a future programme and whilst some options can be considered now, the development of the infrastructure delivery plan (IDP) as an element of the core strategy is essential to an assessment of all options.

1.12.3 At this time it is recommended that no proposals for a capital programme beyond 2014/15 be considered until the IDP is completed and cabinet can consider the relative priority of all schemes proposed for the future capital programme.

1.13 Capital Funding

1.13.1 The funding of the capital programme was agreed by Council in March 2011 and includes assumptions about the value of unsold assets. In addition the funding assumes that in 2014/15 the Council may need to borrow to complete the programme.

1.13.2 During 2011/12 a small number of changes to the level of assumed capital receipts, together with four minor receipts that were unplanned, have all but removed any need to borrow for the future of the programme.

1.13.3 The Council agreed, as part of the budget strategy for 2011/12, to develop a funding mechanism from revenue resources over the three years from 2011/12 to 2013/14. By 2014/15 this fund will generate an annual contribution from revenue of £0.35m. This resource will be available in the years following the current capital programme.

1.13.4 If Cabinet agree to the recommendation, in this report, on the use of the New Homes Bonus allocation the major assumed asset sale will also be available to resource a programme beyond 2014/15. Future work on the capital programme as outlined in the section above will need to include assessment of the means of funding the future schemes from resources such as new homes bonus, community infrastructure levy, further asset sales, revenue contribution and prudential borrowing.

1.14 Balances

1.14.1 The budget strategy for 2011/12, as approved at Council in March 2011, estimated the level of general balances as at 31 March 2012 as £2.67m.

1.14.2 An additional contribution to balances from the under spend reported at outturn 2010/11 increased this estimate to £3.671m.

The use of balances by Cabinet in relation to Capital programme items then reduced the general balance to £3.361m.

1.14.3 During the year a further receipt from HM Revenue and Customs in relation to a VAT Rebate was received and Cabinet agreed to transfer this sum to balances.

1.14.4 As part of the use of balances in 2011/12, as agreed by Council in March 2011, a sum of £0.15m was set aside to fund any transitional costs of the transfer of the concessionary fares function to the County Council. This sum has not been used and it is proposed to return this sum to balances.

1.14.5 Following all of these changes the estimated level of balances as at 31 March 2012 will be £3.593m. The use of balances leading to this figure is detailed in **APPENDIX E.**

1.14.6 Cabinet should note that a provisional figure has been reserved from within general balances. This is as a contribution to the potential over spend on the Museum Extension project.

1.15 Consultation

1.15.1 At its September meeting Cabinet considered options for consultation on the budget for 2012/13. The chosen approach was a continuation of the 2011/12 consultation under the banner of "MY Council, what matters to ME".

1.15.2 In 2011/12 the key consultation questions assessed public opinion on the plans of Cabinet, requested ideas to assist the Cabinet with identifying savings and requested an evaluation of eight major discretionary services.

1.15.3 This year the consultation followed a similar format requesting ideas for savings beyond those already identified. In addition it requested an evaluation of 7 statutory services that were not placed as high priority in the Cabinet's priority matrix.

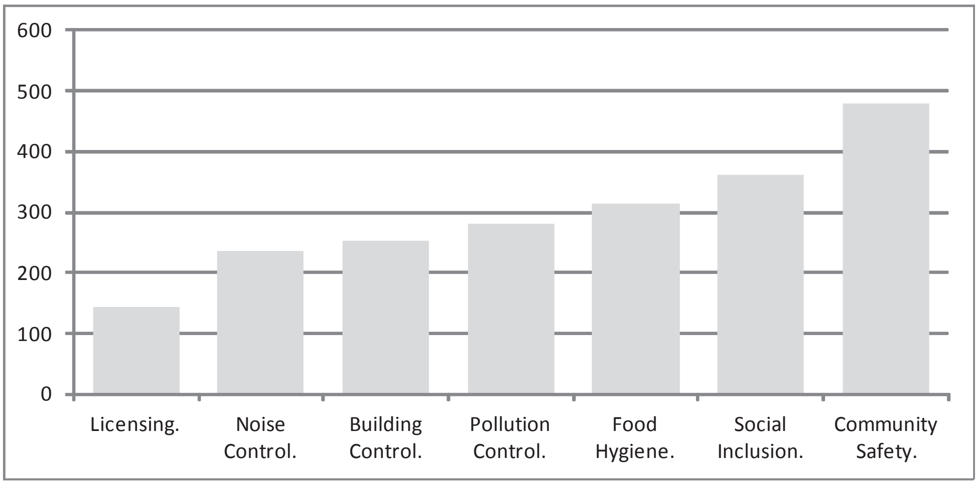
1.15.4 Cabinet agreed a target of 500 responses to the consultation on the basis of the reduced budget available for this activity, the majority of the budget having been saved as part of the 2011/12 strategy. The actual response received was 518. Of these 428 were responses received from the public at road show events and 80 were responses to the online survey run on the Council's website. The online survey replicated the road show survey.

1.15.5 The consultation process commenced later this year in line with the budget strategy process in general. Evaluation of the results and comparisons with earlier consultation exercises is required.

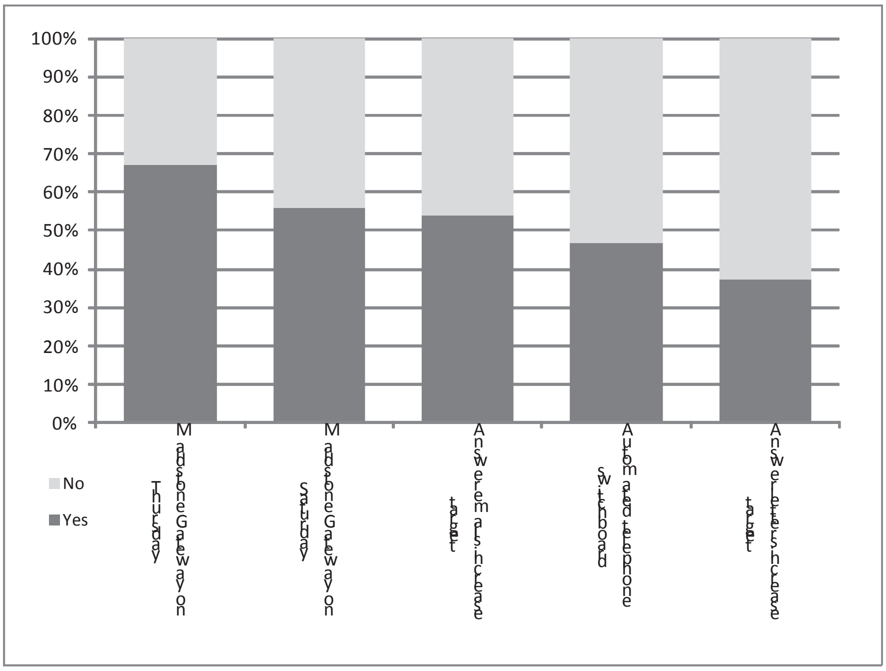
1.15.6 In relation to some areas of the consultation, further customer survey work could be linked to the current review of the customer care policy currently being undertaken by the Head of Finance & Customer Services. For example, where possible post code data has been collected from respondents and this will allow analysis of opinion by location.

1.15.7 In general the responses collected show a consistent trend and identify many areas where the data can be followed up during 2012.

1.15.8 The chart below identifies the responses to the evaluation. The chart shows services moving from left to right in increasing order of public priority. The "X-Axis" indicates the number of respondents identifying the service as a priority.



1.15.9 In addition Cabinet requested that the consultation assess public opinion on the potential savings available from variations in the level of customer service. Five areas were identified where savings could be made. The results displayed in the chart below indicate the acceptability to the public of the change in customer service given the reduction in cost available to the Council.



1.15.10 This direct representation of the results confirms that Cabinet's current proposals for the budget strategy are in line with public opinion. For example Licensing, Building Control and environmental and regulatory Services are all areas where budget strategy has had some focus for 2012/13 onwards.

1.15.11 The Council has been reviewing the options for an automated telephone answering system for switchboard calls and the survey suggests slightly over 50% of respondents were happy for this saving. Consideration has previously been given to the opening hours of the Gateway and further work on this and many other areas remains ongoing.

1.15.12 Much of this information will enable actions during 2012/13 to develop proposals for the budget strategy process for the forthcoming year. It is intended to bring forward reports on these matters during 2012/13 as they will assist the Council in preparing for the significant risks the Council may face in that year. In preparation for this there is an additional amount of work to be completed in assessing the level of savings for these proposals and to ensure there is no effect on the Council's key outcomes under the corporate and customer excellence priority.

1.16 <u>MTFS and Risk Assessment</u>

1.16.1 The review of the Strategic Plan in preparation for 2012/13 onwards is presented to Cabinet elsewhere on this agenda. This draft

Strategic Plan update provides greater clarity on the outcomes required to achieve the priorities of the Council.

1.16.2 The current medium term financial strategy is attached as **APPENDIX F**, this document will be updated to incorporate the changes approved during the budget strategy work for 2012/13 and the identification of the new risks that the strategic financial projection covers.

1.17 Alternative Action and why not Recommended

1.17.1 A number of alternative assumptions are included within the report and in each case Cabinet could chose to take an alternative action to the one recommended. The recommendations of this report provide a balanced budget and do not apply pressure to make decisions at this time where it is not necessary.

1.17.2 The production of the budget for 2012/13 is an element of the statutory process of calculating the Council Tax for 2012/13. In addition the completed and approved document is required to be robust and adequate under the Local Government Act 2003. A statement to this effect must be given by the Chief Financial Officer. On this basis the actions outline in this report must be considered and a balanced budget ultimately achieved for recommendation to Council in February 2012.

1.18 Impact on Corporate Objectives

1.18.1 The budget strategy and the resultant medium term financial strategy involve assessing the level of resources available for the delivery of the Council's key outcomes and is a means by which the Council directs these resources. In particular this report should be seen as complementary to the Strategic Plan report elsewhere on this agenda.

1.19 Risk Management

1.19.1 The process of development of this budget strategy followed on from the comprehensive work completed in 2010/11 for the previous budget strategy. It is supported by the budget monitoring reports. Both contain assessment of budget pressures in 2011/12 and future years, consideration of the level of resources available, review of a wide range of factors affecting the budget and consideration of other financial activity of the Council. This work enables Cabinet to address the risks identified in this report and the medium term financial strategy in an effective and consistent manner over the period of the strategy.

1.19.2 The projection discussed in this report includes a Council Tax increase that enables a balanced budget to be produced. This increase is considered in light of the recent announcement by central government regarding a further Council Tax freeze.

1.19.3 Cabinet should note that the greatest risk in the current strategy lies in the number of factors that will or may affect 2013/14. The potential issues for the medium term financial strategy could be greater than the currently proposed £1.2m savings target. The issues include:

a) The possible recommendation of a zero percent increase in Council Tax and obtaining the Council Tax freeze grant. This will mean an additional budget pressure of £0.34m in 2013/14;

c) The risks surrounding the replacement of Council Tax benefit; and

d) The localisation of business rates and potential top slicing of the baseline to fund New Homes Bonus.

1.20 Other Implications

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

1.20.1 The financial implications are all detailed in the body of the report.

1.20.2 The budget strategy considers the resources necessary to fund staffing levels and pay increments. In addition the report contains proposals that may produce organisational change following the appropriate consultation.

1.20.3 This report intends to provide the Cabinet with firm proposals to enable the Council to set a balanced budget and a Council tax for the year 2011/12 as it is statutorily obliged to do.

1.20.4 The equality impact needs assessment is attached as **APPENDIX G**.

1.21 Relevant Documents

1.21.1 Appendices

Appendix A – Council Tax Freeze
Appendix B – Strategic Revenue Projection 2012/13 Onwards
Appendix C – Savings Proposals 2012/13 Onwards
Appendix D – Capital Programme 2011/12 Onwards
Appendix E – General Fund Balances as at 31 March 2012
Appendix F – Medium Term Financial Strategy 2011
Appendix G – Equality Impact Assessment

1.21.2 Background Documents

IS THIS A KEY DECISION REPORT?

Yes [X] No [ ]

If yes, when did it first appear in the Forward Plan? 21/11/2011

This is a Key Decision because: A budget strategy report

Wards/Parishes affected: All

BUDGET STRATEGY 2013/13 ONWARDS

COUNCIL TAX FREEZE GRANT ANALYSIS

POTENTIAL RESOURCES FOREGONE BY A TWO YEAR COUNCIL TAX FREEZE

COMPOUNDED AT 2.5% FOR AN INDICATIVE 10 YEAR PERIOD

Council Tax from a 2.5% increase £	335,270	339,063	Total
2011/12	-		-
2012/13	8,382	-	8,382
2013/14	16,974	347,540	364,514
2014/15	25,780	356,229	382,009
2015/16	370,092	365,135	735,227
2016/17	379,344	374,263	753,607
2017/18	388,828	383,620	772,448
2018/19	398,549	393,211	791,760
2019/20	408,513	403,041	811,554
2020/21	418,726	413,117	831,843
Total lost after 10 years	**2,415,188**	**3,036,156**	**5,451,344**

APPENDIX A

BUDGET STRATEGY 2012/13 ONWARDS
STRATEGIC REVENUE PROJECTION

2011/12 £,000		2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000	2016/17 £,000
	AVAILABLE FINANCE					
7,731	RSG	6,481	5,703	5,635	5,207	4,947
-1,250	RSG LOSS	-778	-68	-428	-260	-247
15	COLLECTION FUND ADJUSTMENT					
13,411	COUNCIL TAX	13,902	14,319	14,749	15,191	15,647
19,907	**TOTAL RESOURCES AVAILABLE**	**19,605**	**19,954**	**19,956**	**20,138**	**20,347**
20,655	**CURRENT SERVICE SPEND**	19,907	19,605	19,954	19,956	20,138
	INFLATION INCREASES					
354	PAY AND CONTRACTUAL COMMITMENTS	410	503	440	616	544
	CONTRACTUAL COMMITMENTS					
	ELECTIONS		-80	180		
36	REDUCTION IN BENEFIT GRANT	40	40			
80	COBTREE FINAL PAYMENT					
	NATIONAL INITIATIVES					
	COUNCIL TAX BENEFIT REDUCTION		80			
	UNIVERSAL CREDIT - TRANSITIONAL COSTS			150		
	LOSS OF COUNCIL TAX FREEZE GRANT		339		335	
	LOCAL DEVELOPMENT FRAMEWORK	170	130			
	SAFER MAIDSTONE PARTNERSHIP	30	30			
	LOCAL PRIORITIES					
150	LOSS OF INTEREST					
50	CAPITAL RESOURCING	150	150			
160	LEISURE CENTRE REFURBISHMENT					
50	LOSS OF INCOME					
50	CAR PARK INCOME LOSS					
	LOST INCOME FROM REGENERATION	100	200	200		
	PAY RATIONALISATION	160				
	HOMELESSNESS INCREASED DEMAND	60				
	ECONOMIC DEVELOPMENT	30	40			
	SERVICE ARRANGEMENTS WITH PARISHES			80		
	MINOR INITIATIVES					
250	GROWTH PROVISION	150	150	150	150	150
21,835	**TOTAL PREDICTED REQUIREMENT**	**21,207**	**21,187**	**21,154**	**21,057**	**20,832**
1,928	**ANNUAL SAVINGS TARGET**	**1,602**	**1,233**	**1,198**	**919**	**485**

APPENDIX A

BUDGET STRATEGY 2012/13 ONWARDS
SAVING PROPOSALS

HEAD OF SERVICE	Values 2012/13 £	2013/14 £	2014/15 £	2015/16 £
Income				
Communications				
PR & Marketing	43,010			
Environment & Regulatory Services				
Income Options - Depot		40,000		
Mote Park - Income Generation	15,000			
Inter-Authority Trading	54,000			
Income Sum	**112,010**	**40,000**		
Service				
Environment & Regulatory Services				
New Contract / Partnership	100,000	150,000	250,000	
Concessionary Fares Contingency	200,000			
Parking Contract	100,000			
Alternative for Dog Bins	12,000			
Sittingbourne Rd Rent Reduction	20,000			
Finance & Customer Services				
Finance		40,000		
Concurrent Functions Grant	100,000	100,000	80,000	
Minor Supplies Budget	39,510			
Housing & Community Safety				
CCTV	68,000			
Human Resources				
HR Shared Service	20,000			
IT Services				
IT - Shared Service	47,740			
IT Strategy	14,000			
Revenues & Benefits				
Revenues & Benefits IT	50,000			
Service Sum	**771,250**	**290,000**	**330,000**	
Staffing & Related Costs				
Change & Scrutiny				
Restructure	30,290			
Communications				
PR & Marketing	50,620			
Democratic Services				
Restructure	23,380			
Environment & Regulatory Services				
Parking Shared Service	30,000			
Finance & Customer Services				
Customer Services	58,390			
Finance	28,130	74,740		
Housing & Community Safety				
Housing	58,420	25,000		
Human Resources				
HR Terms & Consitions	7,700	5,000	5,000	
IT Services				
IT - Shared Service	36,840	47,950		
Planning				
Joint Team Restructure	25,000	25,000		
Spatial Policy Saving	50,000			
Chief Executive				
Further Senior Officer Review		128,140		
Chief Exec's Review Full Year	50,000			
Revenues & Benefits				
Revenues & Benefits Shared Service	120,000			
Staffing & Related Costs Sum	**568,770**	**305,830**	**5,000**	
Grand Total	**1,452,030**	**635,830**	**335,000**	

APPENDIX A

BUDGET STRATEGY 2011/12 ONWARDS

DRAFT CAPITAL PROGRAMME 2011/12 TO 2015/16

CAPITAL PROGRAMME SUMMARY	Revised Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
CCTV	250,000				
Brenchley Gardens - Upgrading & Improvements	6,300				
Cobtree Golf Course	6,950				
Continued Improvements to Play Areas	125,000	50,000	50,000	50,000	
Green Space Strategy	14,500				
Mote Park Regeneration	921,975	1,350,175			
Small Scale Capital Works Programme	71,500				
Community & Leisure	**1,396,225**	**1,400,175**	**50,000**	**50,000**	
Asset Management / Corporate Property	143,700	150,000	100,000	100,000	
Software / PC Upgrade and Replacement	146,400	180,000	180,000	180,000	
Upgrade Amenity lighting	3,100				
Corporate Services	**293,200**	**330,000**	**280,000**	**280,000**	
CCTV - Park & Ride Sites	5,200				
Improvements to the Council's Car Parks	20,940				
Land Drainage/Improvement to Ditches & Watercourses	23,900				
Environment	**50,040**	**0**	**0**	**0**	
Hazlitt Heating	310,000				
Leisure Centre Roof	20,830				
Museum Improvements (Access / Toilets)	872,290				
Gypsy Site Improvements	100,000				
High Street Regeneration	1,885,670	303,830			
Planning Delivery	9,350				
Housing Grants	1,513,700	1,432,000	1,305,000	1,300,000	
Support for Social Housing	927,000	1,160,000	382,500	190,000	
Regeneration Schemes	111,500				
Economic Development & Transport	**5,750,340**	**2,895,830**	**1,687,500**	**1,490,000**	
TOTAL	**7,489,805**	**4,626,005**	**2,017,500**	**1,820,000**	0

APPENDIX A

BUDGET STRATEGY 2012/13 ONWARDS

PROVISIONAL GENERAL FUND BALANCES

	Total General Fund £000	PROVISIONALLY ALLOCATED Trading Accounts £000	Asset Replacement £000	VAT Reclaim £,000	Invest to Save £000	LDF Fund £000	Overall Total £000
Balance 31/03/2011	7,117	30	47	1,977	559	203	9,933
Use of 2010/11 c/fwd in 2011/12	-2,850						-2,850
Future Proposed Use			133				133
Local Development Framework	-400					-203	-603
Rural Busses	-46						-46
Shared Service Set-up Cost				-336			-336
Carbon Reduction Plans					-55		-55
Contribution to Capital Financing							
General				-1,541			-1,541
Theatre	-310						-310
Additional Refund	82						82
Projected Balance 31/03/2012	3,593	30	180	100	504	0	4,407
Localism Related Activity				-100			-100
NHB - Priorities Activitiy							0
Projected Future Balance	3,593	30	180	0	504	0	4,307

APPENDIX A

BUDGET STRATEGY 2011/12 ONWARDS

MEDIUM TERM FINANCIAL STRATEGY 2011 ONWARDS

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1. INTRODUCTION

1.1 This financial strategy aims to support the council's corporate objectives as identified in the strategic plan 2011 to 2015. Whilst achieving this, major issues relating to resources and facing the council in the medium term will also be highlighted.

1.2 The intention is to set out the revenue and capital spending plans of the council at a high level. The success of these plans will depend upon the resources available to the council, the approach taken to ensure that these resources are aligned over the medium term to reflect corporate objectives and these resources being controlled in a way that ensures long-term stability.

1.3 The government announced details of its spending review in October 2010 and has since announced the formula grant settlement for 2011/12 along with a provisional settlement for 2012/13. This settlement means significant reductions in revenue support grant for the Council. The approach of this strategy is to develop a four year plan with consideration of the impact of material issues on a fifth year. The two year settlement has required a number of assumptions about further years of the strategy and these have been based around the Spending Review 2010 data.

1.4 Although this document is developed for the medium term with an outlook from four to five years, the council will review the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. This review will be completed to coincide with the annual review of the strategic plan. This will enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key outcomes. Production of this document and the balanced budget it facilitates support the key outcomes of the strategic plan in their own right.

1.5 In addition the council has consulted with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

2. REVENUE

2.1 Expenditure

2.1.1 The portfolio budgets in the full revenue estimates include detailed proposals for dealing with financial pressures and service demand, this financial strategy adopts a high-level review of the corporate objectives and budget pressures over the five-year period. This approach ensures a focus on factors that may influence the Council's stated aim to maintain working balances and ensure that they are used for specific and special activities and not to balance the budget. The financial projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Cabinet.

2.1.2 Pay and price inflation:

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

Other costs will need to consider a suitable inflation index balanced with the objectives of the strategy. Large elements of this cost will be tied to conditions of contracts which will specify the annual increase necessary, other costs will increase by the annual increase in an inflation index such as the retail price index or the consumer price index. The strategy may intentionally use levels of increase lower than these indices to enhance general efficiencies.

Table 1 below details the factors used for each year.

Strategic Issue	2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %
Pay Inflation	0.0	0.0	1.0	1.5	2.0
Other Costs Inflation	0.0	0.0	2.0	2.0	2.0
Contractual Commitments	2.0	2.0	2.0	2.0	2.0

[Table 1: Pay & price Indices]

2.1.3 Corporate objectives and key priorities:

In addition to these inflationary pressures the Council will develop and implement improvements to the corporate objectives identified in the strategic plan and, where significant, any local objectives identified in service plans. This may place additional pressure on the revenue budget.

The financial projection will also provide, where necessary, resources for national statutory responsibilities where these are to be provided locally.

Table 2 below identifies the links between the financial projection and key objectives.

SP KO	Strategic Issue	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
	Capital Resourcing	50	150	150		
	Leisure Centre	160				
	Set-up cost provision	250				

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

2.2 **Funding**

2.2.1 Resources available for the revenue budget are heavily constrained making the issue key to the financial planning process. The financial projection assumes that resources are maximised. The strategy identifies three separate categories of resource government grant, council tax and locally derived income from fees and charges. Where the financial projection includes the use of fixed term grant or other time limited income sources each portfolio is responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

2.2.2 Government Grant:

The current revenue support grant settlement is a two year settlement with the second year notified to Councils as provisional. The Government has reported that during that two year period they will adopt a new method for the distribution of revenue support. The strategy responds to this by utilising the figures from the two year settlement and projecting forward on the basis of the Government's intentions as outlined in the Spending Review of 2010.

Other grants received from the government are similarly under threat from the effects of the national economy and the efficiency agenda as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only freezes such grants at their 2010/11 cash values unless further data is available. Table 4 identifies expected variances from this assumption.

2.2.3 Fees & Charges

The Council has a policy on the development of fees and charges that fall within its control. This policy ensures that an evaluation of market forces and links to the strategic plan or service plans are drivers of changes in price. This means that any increases in this funding source will be identified through each portfolio's detailed budget preparation work. At the level of this strategy the assumption is that in overall terms the increase will be commensurate with general inflation. Due to the final effects of the recession, for 2011/12 the financial projection will assume total cash income is frozen at 2010/11 values but will increase slowly in response to the predicted end of the recession.

2.2.4 Council Tax

The Council has a responsive approach to the level of Council tax and will set this at an appropriate level commensurate with the needs of the strategic plan. It has set a policy in recent years of an increase that avoids the threat of council tax capping but remains flexible on the level of that increase, thus focusing the strategy on its ability to set a balanced budget.

The Government's objective of a national Council Tax freeze has been formulated into the strategic projection and the Council has modelled the future financial risk inherent in accepting the Government grant. The fifth year of this strategy identifies the loss of grant and the resulting additional savings required. The purpose of this strategy is to identify such risk and provide the Council with opportunity to prepare for future events in a considered and timely manner.

Table 3 below details the factors used for each resource type and Table 4 details the links between the financial projection and the major risk factors.

Strategic Issue	2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %
Revenue Support Grant decrease	-16.2	-12.9	-1.2	-7.6	-7.6
Fees & Charges increase	0.0	1.0	2.0	2.0	2.0
Council Tax increase	0.0	2.5	2.5	2.5	2.5

[Table 3: Resource and income indices]

SP KO	Strategic Issue	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
	Housing Benefit Admin Grant	36	40	40	40	40
	Parking Income	50	50	50	50	50
	Regeneration Income			200		
	Interest on Investments	150	100	100		
	Income Generation	50				
	Cobtree Charity	80	20			

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

3. **CAPITAL**

3.1 **Programme**

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

3.1.2 The overall programme is considered in terms of the prudential borrowing principles of sustainability, affordability and prudence. The overall programme assessment also considers the relative priority of schemes as they enhance the provision of corporate or service based objectives.

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

3.1.4 Prioritisation of schemes will occur in the following order:

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

3.1.5 The programme for the period 2010/11 to 2014/15 focuses on a series of key projects reflecting the strategic plan and a series of projects providing investment in the property assets. The detailed Capital Programme provides the link between the strategic plan key objectives and the current programme.

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

Portfolio	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Leader	0	0	0	0	0
Community Services	27	250	0	0	0
Corporate Services	335	330	330	280	280
Environment	31	26	0	0	0
Leisure & Culture	3,158	3,290	50	50	50
Regeneration	4,090	3,815	3,563	1,687	1,490
	7,641	7,711	3,943	2,017	1,820

[Table 5: Capital programme]

3.2 Funding

3.2.1 Since 2004 the Council has been debt free and the major funding for capital expenditure has come from capital receipts and government grant. The medium term financial strategy has, in the past, identified the time when such resources would reduce to the point where alternative funding would be required to support a continued programme of capital expenditure. The most recent strategy identifies that the most likely need for alternative funding will occur in 2014/15.

3.2.2 Although commitment to a scheme is given by its inclusion in the programme, the strategy requires that funding is identified in advance of formal commencement of work. This assumption can be maintained up to the level of the Council's prudential borrowing limit as set in the Prudential Indicators. The quarterly monitoring of the capital programme enables Cabinet to take effective decisions based on current levels of funding before major projects commence.

Table 6 below identifies the current funding assumptions and the minimum risk of prudential borrowing need.

Funding Source	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Confirmed:					
Capital receipts	2,011	2,002	1,361	0	0
Capital grant	3,987	2,686	450	450	450
Revenue	1,643	2,423	200	350	323
External funding		600	300		
Assumed:					
Capital receipts	0	0	1,632	1,217	701
Prudential borrowing or other source.	0	0	0	0	346
	7,641	7,711	3,943	2,017	1,820

[Table 6: Capital financing, confirmed and assumed]

4. RESERVES

4.1 The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances or events. In setting the level of these balances and reserves an assessment is made of the potential risks and opportunities that could reduce or enhance those balances.

4.2 All revenue balances at 1st April 2010 total £8.3m and it is estimated that this balance will be £5.8m by 1st April 2011. The major items reducing the balance are approved budget carry forwards of £1.7m from 2009/10 resources into 2010/11 for prior agreed purposes and support for the Local Development Framework and minor initiatives.

4.3 The balances comprise a general balance and a series of specific allocations the breakdown of these is given in Table 7 below.

Balances	01/04/2010 £,000	01/04/2011 £,000	01/04/2012 £,000
General balance	5,222	3,220	2,670
Trading account surpluses	30	30	30
Asset replacement	7	47	47
Invest to save initiatives	551	539	484
Local development Framework	352	0	0
VAT Reclaim	2,227	1,977	0
Total	8,389	5,813	3,231

[Table 7: Revenue balances]

4.4 In addition to revenue reserves a small number of capital reserves exist due to the timing of expenditure in the Capital Programme.

4.5 Available capital receipts at 1st April 2010 total £2m and it is estimated that this balance will be used up during 2010/11.

4.6 Other capital balances include grants and contributions unapplied which total £1.5m at 1st April 2010. These balances are, in most cases, received for specific schemes and applied only to finance those schemes.

5. Efficiency

5.1.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money (vfm) services that residents are satisfied with, as a key outcome. This theme runs through service plans and by this the Council's approach to efficiency is integrated in to all decision making.

5.1.2 The Council has successfully achieved all its government set efficiency targets and will not cease to monitor and improve upon levels of efficiency both through improved service levels and reduced costs.

5.1.3 The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:

a) Annual best value reviews performed by officers and by members.
b) Kent wide benchmarking to measure unit cost and performance levels and compare these over time and across Kent.
c) Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
d) The identification of efficiency targets that match the Council's need over the period of this medium term financial strategy.

5.1.4 Efficiency proposals are carefully measured for effect upon capacity, acceptable levels of service, quality standards, and the potential of shared service provision. All efficiency proposals consider the effect of fixed costs and the effect on the base financial standing of the Council and the opportunity for reinvestment of gains into priority services or toward achievement of corporate objectives.

5.1.5 The adoption of efficiency and VFM as part of this strategy helps to ensure that the financial projection will remain within available resources.

5.1.6 The financial projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 8 below details the required saving for each year, based on the factors used in the financial projection, and the percentage of net revenue spend the given saving represents.

Strategic Projection	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
Annual Savings Requirement	1,982	1,167	607	768	963
Percentage Saving	9.6%	5.86%	3.12%	3.88%	4.86%

[Table 8: Annual savings requirement]

5.1.7 The Council has required the savings target to be met in the medium term and at this time proposals are in place to provide efficiency and savings to meet the requirement through to 2013/14. The Council is continuing to develop long term proposals to ensure the future risk is mitigated at the earliest time.

6. CONSULTATION

6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a programme has been proposed that ensures the focus of annual consultations avoids the review of similar themes and builds a body of opinion.

6.2 The Council consults annually on this strategy and the proposed budget for the forthcoming year. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.

6.3 In recent years the consultation has considered the level of council tax increase acceptable and the service areas where reductions should occur, the elasticity of demand for services provided by the Council with a related fee and for this strategy the consultation focused on the long term factors faced by the Council due to the current economic climate and the relative importance residents place on a range of discretionary services provided by the Council.

7. RISK MANAGEMENT

7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, this strategy must consider the barriers to achieving the resource levels assumed by the budget.

7.2 A full risk assessment of the strategy has been completed and forms part of the operational risk assessment of the services provided by the Head of Finance and Customer services.

7.3 Twelve major risk areas have been identified and action plans have been developed for each. The twelve areas are as follows:

a) The level of balances;
b) Inflation rates;
c) The national deficit;
d) External grants and contributions;
e) Limitations on Council Tax increases;
f) Fees and charges;
g) Capital financing;
h) Horizon scanning;
i) Delivery of efficiency;
j) Pension fund valuations;
k) Savings targets;
l) Treasury Management.

APPENDIX A

Stage 1: Equality Impact Assessment

1. What are the main aims purpose and outcomes of the Policy and how do these fit with the wider aims of the organization?
The intention is to set out the revenue and capital spending plans of the council at a high level. The success of these plans will depend upon the resources available to the council, the approach taken to ensure that these resources are aligned over the medium term to reflect corporate objectives and these resources being controlled in a way that ensures long-term stability. This financial strategy aims to support the council's corporate objectives as identified in the strategic plan. Whilst achieving this, major issues relating to resources and facing the council in the medium term will be highlighted.
2. How do these aims affect our duty to: • **Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the act.** • **Advance equality of opportunity between people who share a protected characteristic and those who do not.** • **Foster good relations between people who share a protected characteristic and those who do not.**
The major aim is to target resources appropriately. This means to focus on the Council's strategic priorities and the key outcomes required over the planning period. Included within those priorities is the following key outcome: "residents are not disadvantaged because of where they live or who they are, vulnerable people are assisted and the level of deprivation is reduced." The correct development of the policy with a focus upon the corporate priorities will ensure that there is no negative effect.
3. What aspects of the policy including how it is delivered or accessed could contribute to inequality?
None, it is the objective of this policy to eliminate inappropriate or poor focusing of the available resources as this could contribute to inequality.
4. Will the policy have an impact (positive or negative) upon the lives of people, including particular communities and groups who have protected characteristics? What evidence do you have for this?
The policy 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.

If the answer to the second question has identified potential impacts and you have answered yes to any of the remaining questions then you should carry out a full EQIA set out as stage 2 below.

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 21 December 2011

BUDGET STRATEGY 2012/13 ONWARDS

Issue for Decision

To consider the previously agreed budget strategy in the context of the provisional formula grant settlement announced on 8th December 2011 and any changes that have occurred to national and local circumstances since the previous consideration by Cabinet in September 2011.

Decision Made

1. That the revised strategic revenue projection at Appendix B to the report of the Corporate Leadership Team, which incorporates the review of strategic projection, be agreed.

2. That the proposed savings for 2012/13 Onwards, as detailed at Appendix C to the report of the Corporate Leadership Team be agreed, subject to an additional saving of £10,000 from adjustments to the support service budget within the Corporate Services portfolio.

3. That the proposed use of the New Homes Bonus as outlined below be agreed.

4. That no capital programme be set for 2015/16 at this time, awaiting a report from officers on prioritisation of options once the infrastructure delivery plan is sufficiently detailed for evaluation.

5. That the issues relating to revenue resources, including the council tax levels, the tax base and the provisional revenue support grant be noted.

6. That the results of the budget consultation and the issues identified for future years of the medium term financial strategy and the strategic plan be noted.

7. That the utilisation of a one-off £100,000 from general balances to support the concurrent functions grant process during 2012/13 to allow for consultation to be completed and the delivery of the new parish services scheme be agreed.

Reasons for Decision

The Government announced the proposed level of Revenue Support Grant (also known as Formula Grant) for Maidstone Borough Council on 8th December 2011 and this is equal to the assumption in the September 2011 budget strategy report at £5.7m. This is a 12% reduction in this grant.

Council Tax levels consistent with a 2.5% increase in the Council Tax charged are built into the strategic Revenue projection at this time. This is equivalent to the Government's offer of a second one year council tax freeze grant and no decision needs to be made at this time about whether to freeze or increase Council tax.

The strategic revenue projection agreed, for planning and consultation purposes, by Cabinet in September 2011 identified a need to find £1.861m in savings to produce a balanced budget for 2012/13. Since that time work by Members and Officers, to ensure the delivery of a strategy that enables a balanced budget to be recommended to Council in February 2012, has brought about the following amendments:

a) Reductions in the budget pressures identified in the strategic revenue projection totalling £0.26m
b) Increases in the proposed savings of £0.32m
c) Increased income from fees and charges of £0.15m

The net result of these changes enables a balanced budget to be proposed at this time.

The capital programme has been amended during the year by Cabinet to enable the essential works to the heating system at the Hazlitt Theatre and to provision a potential overspend on the Museum extension. By using revenue balances to fund these schemes there has been no adverse effect on the programme agreed by Council in March 2011.

At this time there is no proposal to develop a programme for the year 2015/16 as it is essential to understand the requirements of the infrastructure delivery plan; prioritise those requirements along with other proposed schemes and understand the mechanisms for funding. Funding options include Community Infrastructure Levy, New Homes Bonus and Borrowing. These issues will develop during the last quarter of 2011/12 and into 2012/13 and a report will be brought to a later Cabinet meeting once the funding and scheme proposals are clear.

Additional and unplanned receipts of a capital nature have enabled a reduction in the projected level of borrowing required by the current programme in 2014/15. This report makes a proposal to use New Homes Bonus to support the Capital programme and reduce the risk presented by assumed receipts from as yet unsold assets. This means that the need to borrow can be overcome during the period of the capital programme.

The amended estimate of general balances as at 31 March 2012, taking into consideration all changes that have occurred during 2011/12 to date, is predicted to be £3.593m.

At its September 2011 meeting, Cabinet considered the initial budget strategy for 2012/13 onwards. It agreed a strategic revenue projection, a level of council tax for use in planning and consultation on the budget and the method by which consultation would be carried out.

The key assumptions made in that initial projection set separate indices for inflation, for contractual commitments and for business rates. It assumed no increase in general inflation for supplies and services budgets and set no provision for a pay award. In addition Cabinet chose to set no general target for increases in income so that a review of fees and charges could be completed in line with the Council's corporate policy on fees and charges. This work has resulted in a separate report to Cabinet that is elsewhere on this agenda.

The budget strategy for 2011/12, which was developed last year, identified £0.7m in budget pressures for 2012/13. However the strategic revenue projection approved by Cabinet in September 2011 increased this sum to £1.4m.

The strategic projection assumed a 2.5% increase in Council Tax along with a 0.5% increase in the tax base, giving a 3% increase in income from Council Tax. In addition revenue support grant assumptions were based upon the guideline figures provided by central government with the 2011/12 settlement figures in February 2011.

A number of risks were considered, in the main these were related to assumptions in the strategic revenue projection, including:

a) The risk surrounding the current pay structure and the effect of equal pay legislation;

b) The potential effects of the Welfare Reform Bill on Council Tax benefit and the housing benefit service;

c) The consequences to the future years of the budget strategy from a further Council Tax freeze grant arrangement;

d) The Formula Grant settlement and the possible consequences of the slower than expected growth forecasts.

The capital programme was also considered and had been amended during the year to include funding for works to the heating systems at the Hazlitt Theatre and the creation of a reserve to support the potential additional cost of the Museum extension. These items were both funded from revenue balances.

Although no proposals for the continuation of the programme for a further year were considered at that time. The report showed that due to the level of miscellaneous and small receipts into the capital programme the risk of borrowing in 2014/15 had significantly reduced.

The risks that remain for the capital programme is the delivery of the capital receipts from the approved asset sales both to time and at assumed value. These risks continue to exist and will have a consequential effect on the need to borrow to finance the current programme.

Since the time of that initial report and consideration by Cabinet a number of important factors have changed, further announcements from central government have occurred and members and officers have continued to work on identifying the amendments required to ensure a balanced budget is achieved. It is an appropriate time for cabinet to review the strategy and for the result of this review to be considered by Corporate Services Overview and scrutiny Committee.

Economic Background

The international financial climate continues to have a significant effect upon the country and this effect can be seen in the levels of activity and demand for services in Maidstone.

The Council's treasury management advisors have reported a series of downgrades in the credit ratings on an international scale. This has had the effect of reducing the range of institutions with which the Council can invest. This could potentially reduce the return on investment that can be obtained.

The economic indicators for October 2011 all show adverse movement since the indictors for October 2010, which were reported to Cabinet last year when considering the budget strategy.

a) The consumer price index has risen to 5.0% (3.2%, October 2010);

b) The retail price index has risen to 5.2% (4.5%, October 2010);

c) In the quarter to September 2011 the economy grew by 0.5% (0.8% September 2010);

d) The deficit at October 2011 is £966.5bn which is 62.3% of GDP; and

e) Unemployment has risen to 8.3% (7.7% September 2010)

The Council's front line services, such as housing benefit and homelessness, have all seen increases in demand, generating additional cost pressures.

Review of Current Performance 2011/12

The current financial year's performance is reported on a quarterly basis to Management Team and to Cabinet. The first two quarterly monitoring reports for 2011/12 show a reasonably stable under spend against profiled budget of just over £0.4m.

The capital programme approved by Council in March 2011 has been amended by Cabinet to incorporate an additional scheme to upgrade the heating system at the Hazlitt Theatre, this was funded by the use of some of the 2010/11 under-spend that was transferred to balances at the end of that year. In addition Cabinet considered a report on the Museum Extension and agreed that a provision against a potential overspend on that scheme should be held in balances.

Capital funding has been increased by two unexpected asset sales and a receipt from Golding Homes from right to buy sales. At the same time two predicted assets sales have been adjusted, one has been reduced in potential value and one has been slipped into future years. The current programme is still affordable, subject to the planned asset sales providing the expected receipts. The level of borrowing still projected for 2014/15 has reduced slightly.

Following the decisions on the use of balances by Cabinet during the year, balances remain at a satisfactory level. The minimum level of working balances set by Cabinet is £2.3m and before any further possible adjustments the expected level of balances at 31 March 2012 is £2.8m. In addition to this value there is over £1m of balances provisionally set aside for specific uses.

Along with the quarterly budget monitoring reports, Cabinet has received quarterly performance reports. The performance report to September 2011 shows that over 73% of KPI and LPI are forecast to end the year at or above target.

<u>Review of Revenue Resources</u>

Formula Grant

On 08 December 2011 the Government announced the 2012/13 provisional formula grant settlement for consultation. The provisional grant for Maidstone Borough Council is £5.703m, which is identical to the advance notification received in February 2011 along with the confirmation of the 2011/12 formula grant.

The reduction in grant, when compared to the grant received in 2011/12 is 12%. However the government measures the reduction in terms of “revenue spending power”. The Council’s reduction, measured on this basis, is less than the Government set maximum of 8.8%.

This announcement is for consultation and the Council is able to comment only on the factors used in the formula, such as population and tax base. However the Council’s grant is restricted by damping and the Council is in the highest damping group. Any changes successfully obtained through the consultation process are unlikely to affect the grant after damping.

This is expected to be the final year of formula grant and the government has already consulted on the planned localisation of business rates. The scheme should be in place for the 2013/14 financial year. The Council has responded to the consultation.

Council Tax

The Council's current Council Tax charge has been stable for the two years 2010/11 and 2011/12. The Council's band D rate of tax is £222.39.

In 2011/12 the Council set a zero percent increase and is now in receipt of Council Tax freeze grant of £0.335m per annum for the four years 2011/12 to 2014/15. In 2015/16 the strategic revenue projection identifies the loss of this grant as a budget pressure.

At its September 2011 meeting Cabinet agreed a strategic revenue projection for planning and consultation purposes that included an increase in Council Tax income of 3%. This represented a 0.5% increase in the tax base and a 2.5% increase in the Council Tax.

A 2.5% increase in the level of Council Tax, for Maidstone Borough Council's element of the charge, equates to £5.56 per annum for a band D tax payer. This is 10.7 pence per week. This is because the borough council charge is only 15% of the total charge. The value of a 2.5% increase at band D for each preceptor is detailed in the table below.

Tax Charges	2011/12 Precept	2011/12 Band D	2012/13 if +2.50%	Increase Yr on Yr	% Effect on tax bill
	£	£	£	£	%
Maidstone Borough Council	13,410,811	222.39	227.95	5.56	0.38
Kent County Council	63,184,382	1,047.78	1,073.97	26.19	1.77
Kent Police Authority	8,362,834	138.68	142.15	3.47	0.23
Kent & Medway Fire	4,097,596	67.95	69.65	1.70	0.12
		1,476.80	**1,513.72**	**36.92**	**2.50**

Since that meeting central government has announced a second phase of Council Tax freeze grant. However this grant is for one year only, 2012/13. The grant would have a value equivalent to a 2.5% increase in Council Tax.

The grant for this second phase is greater in value than the grant for the first phase because of the increase in the tax base. On 14th December 2011 the General Purposes Committee agreed a tax base of 60,985.3 which is 1.1% greater than the tax base for 2011/12. As stated above the strategic revenue projection agreed by Cabinet in September 2011 included a 0.5% increase in the tax base.

The decision not to increase Council Tax in 2011/12, leading to the acceptance of the Council Tax freeze grant, has had a significant impact on the Council's future financial situation. As an indicative example, for the ten years 2011/12 to 2020/21, allowing for the receipt of the grant for years and compounding at 2.5% the foregone revenue totals £2.4m.

The second phase of the Council Tax freeze grant will have a greater impact over the same time period. This is because it is a larger sum and the grant is only available for one year. Projected forward to 2020/21 the foregone revenue is £3m.

Should the Council choose to accept the Council Tax freeze grant for a second year, the future net revenue resource foregone would total £5.5m by 2020/21. The full calculation of this sum is attached to this report at Appendix A to the report of the Corporate Leadership Team.

A decision on the level of increase in Council Tax need not be taken at this time. The income in 2012/13 from accepting the Council Tax freeze grant is equivalent in value to the 2.5% increase in Council Tax built in to the current strategic revenue projection. The effect of the Council deciding to take the freeze grant will become a budget pressure in 2013/14. Cabinet may wish to consider the issue further, await the views of Corporate Services Overview and Scrutiny Committee in January 2012 and make a final decision on a recommendation to Council at the February 2012 Cabinet meeting.

Elsewhere on this agenda Cabinet has considered a report on the Collection Fund adjustment. The recommendation of that report was a nil adjustment for 2012/13. Combining this proposed value with the formula grant settlement and the Council Tax level gives the budget requirement for the Council. This value for each year of the strategy is given in the table below. In order to achieve a balanced budget, these are the maximum values for net revenue expenditure that the Council can budget for in the years from 2012/13 onwards.

	2012/13 £,000	**2013/14 £,000**	**2014/15 £,000**	**2015/16 £,000**	**2016/17 £,000**
Formula Grant	5,703	5,635	5,207	4,947	4,700
Collection Fund Adj.	0	0	0	0	0
Council tax	13,902	14,319	14,749	15,191	15,647
Budget Requirement	**19,605**	**19,954**	**19,956**	**20,138**	**20,347**

Review of Strategic projection

Since Cabinet agreed the strategic revenue projection in September 2011 officers have continued to work on balancing growth and savings to ensure a balanced budget is achieved.

A number of budget pressures outlined in the strategic revenue projection have been considered and it is proposed to modify the strategic projection as follows:

a) **Local Development Framework (LDF)** – Officers have completed the required analysis of funding for the LDF. The estimated level of expenditure has not changed, however management action has identified additional resources, from within base budgets and agreed carry forwards and these provide an additional £0.13m. The overall result of this work is that the three year programme previously reported to Cabinet now requires funding of £0.77m rather than the £0.9m previously reported. It is proposed that the budget pressure be reduced in 2012/13 by £0.13m to £0.17m. This approach would add an immediate need for £0.13m in 2013/14 to ensure a total resource of £0.77m is identified by 2014/15. It is intended that officers will review progress on the LDF budget annually for consideration as part of the budget strategy process.

b) **Interest on Investments** – the Council's Treasury Management Strategy ensures that risk takes precedence over reward in investment decisions and declining interest rates have meant that the level of income received from investments has declined in recent years. In addition the advice received from the Council's treasury management advisors has reduced the range of institutions with which the Council invests. In contrast the Council's cash flow is healthy. Resources held in balances and for the capital programme mean that the interest from investment is expected to be resilient to these pressures and the current budget pressure of £80,000 will not be required.

c) **Car Parking** – the strategic revenue projection has provisioned an annual reduction of £50,000 in income levels. This is intended to support any actions taken as part of the developing parking strategy and, in recent years, as protection from the effects of the recession on demand. It is proposed that this provision is removed and, for future years, this budget pressure is linked to the development of the actual parking strategy and any budget pressures are brought forward in specific detail.

In addition to the proposed reductions detailed above, there are two service areas where additional pressures are developing.

a) **Housing Homelessness** – the continuing economic climate has had a negative impact through increasing demand for this service. The work of the team on both homeless prevention and temporary housing costs for the homeless have increased significantly during 2011/12. An assessment of the current levels of service suggests a net annual increase of £60,000 is required. This would maintain, into the future, the level of provision that exists today. In addition to this action management are reviewing alternative methods of provision that may reduce this cost in future years and will be the subject of a report to Cabinet during 2012/13.

b) **Economic Development** – this is a priority service, identified as the only service area where the Cabinet expected to see growth. The service has been set a series of priorities for the future as part of the development of the strategic plan. This work is currently undertaken by staff who are on fixed term contracts that terminate in the near future. No base budget funding exists for this service and the activity is currently resourced by various one off funding sources. The funding required for the two posts on fixed term contracts totals £70,000. During 2012/13 the fixed term contract for one post expires at a cost of £30,000, the second end in 2013/14 at a cost of £40,000. The pressure in 2012/13 would therefore be £30,000.

These amendments give a net reduction in the pressure on the budget strategy of £0.17m. Along with the changes to the tax Base discussed under the revenue resources section of this report, the budget pressure for 2012/13 is now £1.602m. The savings targets created by the pressures, as amended, for each year of the strategic revenue projection are tabled below. Cabinet should note that, if the Council Tax freeze grant is accepted for 2012/13, the savings target for 2013/14 will increase by £0.34m.

	2012/13 £,000	**2013/14 £,000**	**2014/15 £,000**	**2015/16 £,000**	**2016/17 £,000**
Budget Requirement	19,605	19,954	19,956	20,138	20,347
Predicted Budget	21,207	21,187	21,154	21,057	20,832
Saving Required	**1,602**	**1,233**	**1,198**	**919**	**485**

A revised strategic revenue projection is attached to this report at Appendix B to the report of the Corporate Leadership Team.

Review of Savings Proposals

The savings proposals reported to Cabinet in September 2011 have been reviewed along with the growth items detailed above. This forms part of the review of growth and savings to ensure a balanced budget can be proposed.

The savings proposals reported to Cabinet in September 2011 totalled £1.131m. The following actions have since been taken by officers: reviewing the level of savings available from each proposal; considering the possibility of bringing forward any actions proposed for future years; considering any new proposals and reviewing the level of fees and charges income. The review of fees and charges has resulted in a report elsewhere on this agenda which is summarised in a later section of this report. The other actions have resulted in the following changes to the savings proposals:

a) **Amended savings levels** – in the case of the revenues and Benefits Partnership and Finance and Customer Services, amended savings levels have been proposed.

b) **Proposals brought forward** – changes to the Policy and Scrutiny Team, changes to the Democratic Service Team, Delivery of savings in the Waste and Recycling Service, changes to the ICT Team and changes within the Finance Team have all been brought forward from future years.

c) **New proposals** – the increases from new proposals are all minor issues as major ideas are already identified in the strategic projection of savings. New proposals have come from the Audit Partnership and Democratic Services.

The increase in the value of savings proposals from these actions is £0.33m. A summary of the current savings proposals is attached to this report at Appendix C to the report of the Corporate Leadership Team. An amended structure for this appendix allows Cabinet to see clearly whether the saving is in the service, structure or income budgets. This format will enhance the monitoring of the delivery of savings during 2012/13.

Cabinet should note that the detailed analysis at Appendix C to the report of the Corporate Leadership Team represents the proposals delivered as well as planned, for 2012/13. An example of this is the savings delivered by staffing changes in Revenues and Benefits. The shared service delivered all expected savings in an earlier than planned phase of its development and the savings have been held to meet the needs of the budget strategy. This has had no adverse impact on service delivery.

The savings proposed from the partnership based new contract for waste services is identified in the proposals at the lower end of the range of possible savings. At this time in the development of the new services it is considered prudent to plan only for the lowest level of benefit.

The savings proposals do not, at this time, include the planned changes at the Hazlitt Theatre. A business case is being considered for the most appropriate method of future service delivery. It is expected that this will deliver the hope for reduction in the subsidy provided to the Theatre by the Council. Following a future report to cabinet, any savings that can be released will be built into the 2013/14 budget strategy.

<u>Other Income</u>

As part of the approval of the strategic revenue projection, Cabinet took the decision to not set a corporate target for increases in income from fees and charges. The Council has a corporate policy on fees and charges and the Cabinet decision enabled the use of this policy to guide officers to the most appropriate levels of fees and charges. The results of the officer review is reported elsewhere on this agenda and that report recommends the adoption of new fees and charges for some services that will deliver an additional £0.14m of income. This enhances the reduction in the budget pressure detailed earlier in this report.

The Council also receives income from the rent and lease of land and buildings. The majority of these are on agreements that enable occasional negotiation and uplift. Opportunities to negotiate increases in rents and leases are being considered by the Property Services Manager for inclusion in future years of the strategic revenue projection.

The final category of income is from grants and contributions. At this time, given the economic climate and the reduction in funding seen throughout the public sector there is little opportunity to identify permanent increases in this income source. One off increases would not form part of the budget strategy as there is no guarantee of future funding from one off grants. The focus of the officers involved in developing this source of income remains mainly fixed upon the Museum and Social Housing at this time.

New Homes Bonus

The Government recently announced the New Homes Bonus (NHB) allocation for 2012/13. This Council will receive an allocation that is slightly lower than the value of the 2011/12 payment. In addition it receives the second year of the 2011/12 allocation and the first year of the affordable homes premium. In total the Council is due to receive just under £1.8m in 2012/13. The detailed breakdown of this figure is given in the table below.

	£
2011/12 Allocation	892,316
2012/13 Allocation	825,216
Affordable Homes Premium	78,120
Total Due 2012/13	**1,795,652**

This payment is a rolling grant that should be maintained by central government for a period of six years.

Cabinet should note that the Government also announced that the total allocation is £6m more than the resources available and a claw back would be necessary from a top slice of the baseline for localised business rates in 2013/14.

Government consultation on the localisation of business rates has proposed the top slicing of the business rates baseline. The amount top sliced should be the Government's calculated overspend during the full six years of the programme. This means that future payments of NHB may be significantly reduced and this announced £6m over allocation will be a small element of that top slice.

At this time it is recommended that future NHB payments be treated as uncertain, due to the fact that they may, in part, need to supplement the receipt of localised business rates in future years. At this time the most appropriate use of this money is for major time limited projects.

An effective use of the resources would be to mitigate the cash flow risks currently inherent in the capital programme. As Cabinet is aware the programme relies for resources on identified but as yet unsold assets. Using the NHB payment to substitute for the value of the unsold assets in the medium term will mean that the funding need covered by the unsold assets will slip into future years of the programme and the opportunity to gain best price for the assets is improved.

If Cabinet agree this action approximately 10%, £0.18m, of the NHB payment would be available for other uses. It is recommended that this money is placed in balances and a report is brought to the January 2012 Cabinet meeting on potential uses of this money.

Capital Expenditure

The capital programme agreed by Council in March 2011 has been modified by Cabinet during the year. Slippage of £0.684m between

2011/12 and 2012/13 has been agreed. Although this slippage changes the profile of the programme it does not change the underlying value that the Council must resource. In addition Cabinet has approved a scheme to upgrade the heating system at the Hazlitt Theatre and has set aside a provision against potential overspend on the Museum Extension. Both of these schemes were funded from identified revenue balances and have not altered the funding requirements of the programme.

At this time the capital programme ends in 2014/15. A number of projects can be considered to create a future programme and whilst some options can be considered now, the development of the infrastructure delivery plan (IDP) as an element of the core strategy is essential to an assessment of all options.

At this time it is recommended that no proposals for a capital programme beyond 2014/15 be considered until the IDP is completed and cabinet can consider the relative priority of all schemes proposed for the future capital programme.

Capital Funding

The funding of the capital programme was agreed by Council in March 2011 and includes assumptions about the value of unsold assets. In addition the funding assumes that in 2014/15 the Council may need to borrow to complete the programme.

During 2011/12 a small number of changes to the level of assumed capital receipts, together with four minor receipts that were unplanned, have all but removed any need to borrow for the future of the programme.

The Council agreed, as part of the budget strategy for 2011/12, to develop a funding mechanism from revenue resources over the three years from 2011/12 to 2013/14. By 2014/15 this fund will generate an annual contribution from revenue of £0.35m. This resource will be available in the years following the current capital programme.

If Cabinet agree to the recommendation, in this report, on the use of the New Homes Bonus allocation the major assumed asset sale will also be available to resource a programme beyond 2014/15. Future work on the capital programme as outlined in the section above will need to include assessment of the means of funding the future schemes from resources such as new homes bonus, community infrastructure levy, further asset sales, revenue contribution and prudential borrowing.

Balances

The budget strategy for 2011/12, as approved at Council in March 2011, estimated the level of general balances as at 31 March 2012 as £2.67m.

An additional contribution to balances from the under spend reported at outturn 2010/11 increased this estimate to £3.671m. The use of balances by Cabinet in relation to Capital programme items then reduced the general balance to £3.361m.

During the year a further receipt from HM Revenue and Customs in relation to a VAT Rebate was received and Cabinet agreed to transfer this sum to balances.

As part of the use of balances in 2011/12, as agreed by Council in March 2011, a sum of £0.15m was set aside to fund any transitional costs of the transfer of the concessionary fares function to the County Council. This sum has not been used and it is proposed to return this sum to balances.

Following all of these changes the estimated level of balances as at 31 March 2012 will be £3.593m. The use of balances leading to this figure is detailed at Appendix E to the report of the Corporate Leadership Team.

Cabinet should note that a provisional figure has been reserved from within general balances. This is as a contribution to the potential over-spend on the Museum Extension project.

Consultation

At its September meeting Cabinet considered options for consultation on the budget for 2012/13. The chosen approach was a continuation of the 2011/12 consultation under the banner of "MY Council, what matters to ME".

In 2011/12 the key consultation questions assessed public opinion on the plans of Cabinet, requested ideas to assist the Cabinet with identifying savings and requested an evaluation of eight major discretionary services.

This year the consultation followed a similar format requesting ideas for savings beyond those already identified. In addition it requested an evaluation of 7 statutory services that were not placed as high priority in the Cabinet's priority matrix.

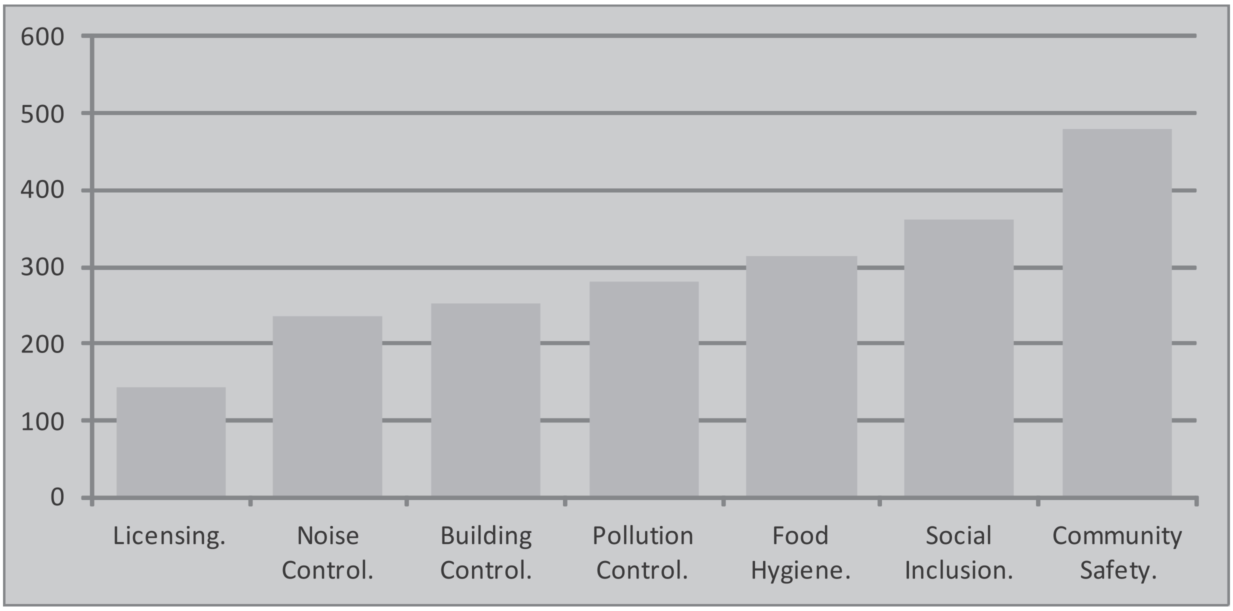
A target of 500 responses was agreed for the consultation on the basis of the reduced budget available for this activity, the majority of the budget having been saved as part of the 2011/12 strategy. The actual response received was 518. Of these 428 were responses received from the public at road show events and 80 were responses to the online survey run on the Council's website. The online survey replicated the road show survey.

The consultation process commenced later this year in line with the budget strategy process in general. Evaluation of the results and comparisons with earlier consultation exercises is required.

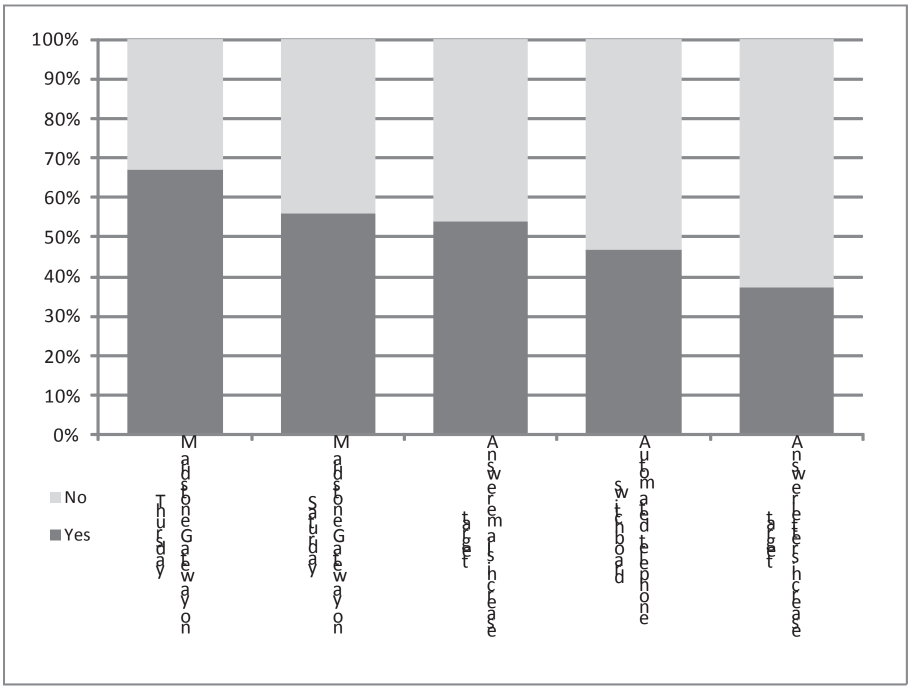
In relation to some areas of the consultation, further customer survey work could be linked to the current review of the customer care policy currently being undertaken by the Head of Finance & Customer Services. For example, where possible post code data has been collected from respondents and this will allow analysis of opinion by location.

In general the responses collected show a consistent trend and identify many areas where the data can be followed up during 2012.

1.1.1 The chart below identifies the responses to the evaluation. The chart shows services moving from left to right in increasing order of public priority. The “X-Axis” indicates the number of respondents identifying the service as a priority.



In addition Cabinet requested that the consultation assess public opinion on the potential savings available from variations in the level of customer service. Five areas were identified where savings could be made. The results displayed in the chart below indicate the acceptability to the public of the change in customer service given the reduction in cost available to the Council.



This direct representation of the results confirms that Cabinet’s current proposals for the budget strategy are in line with public opinion. For example Licensing, Building Control and environmental and regulatory

Services are all areas where budget strategy has had some focus for 2012/13 onwards.

The Council has been reviewing the options for an automated telephone answering system for switchboard calls and the survey suggests slightly over 50% of respondents were happy for this saving. Consideration has previously been given to the opening hours of the Gateway and further work on this and many other areas remains ongoing.

Much of this information will enable actions during 2012/13 to develop proposals for the budget strategy process for the forthcoming year. It is intended to bring forward reports on these matters during 2012/13 as they will assist the Council in preparing for the significant risks the Council may face in that year. In preparation for this there is an additional amount of work to be completed in assessing the level of savings for these proposals and to ensure there is no effect on the Council's key outcomes under the corporate and customer excellence priority.

<u>MTFS and Risk Assessment</u>

The review of the Strategic Plan in preparation for 2012/13 onwards is presented to Cabinet elsewhere on this agenda. This draft Strategic Plan update provides greater clarity on the outcomes required to achieve the priorities of the Council.

The current medium term financial strategy is attached at Appendix F to the report of the Corporate Leadership Team, this document will be updated to incorporate the changes approved during the budget strategy work for 2012/13 and the identification of the new risks that the strategic financial projection covers.

Alternatives considered and why rejected

A number of alternative assumptions are included within the report and in each case Cabinet could chose to take an alternative action to the one recommended. The recommendations of this report provide a balanced budget and do not apply pressure to make decisions at this time where it is not necessary.

The production of the budget for 2012/13 is an element of the statutory process of calculating the Council Tax for 2012/13. In addition the completed and approved document is required to be robust and adequate under the Local Government Act 2003. A statement to this effect must be given by the Chief Financial Officer. On this basis the actions outline in this report must be considered and a balanced budget ultimately achieved for recommendation to Council in February 2012.

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 Change and Scrutiny by: **05 January 2012**

Risk Management: Budget Strategy 2012/13 Onwards – Financial Risks **APPENDIX C**

Section: FINANCE

Risk No	Risk Name	Vulnerability (Why, what's happening, what's the problem)	Trigger/risk (What's the event/ what could go wrong?)	Consequences (What would occur as a result, how much of a problem would it be, to whom and why?)
1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2012/13 this is expected to be £2.3m which is 11.5% of net revenue expenditure	a. Minimum balance is insufficient to cover unexpected events. b. Minimum balance is in excess of real need	a. This would require a large single event or multiple unexpected events greater than £2.3m and would require the additional balances above the minimum level to have been depleted. At this time balances in excess of the minimum are expected to be in the region of £1.9m. B. In the past the Audit Commission has approved a policy of holding minimum balances at 10% of net revenue expenditure. This equates to £1.9m for 2012/13. However it is considered prudent to maintain the minimum level of balances at the maximum level it has previously been (£2.3m) due to the current economic climate.
2.	Inflation rate prediction	Inflation allowances are set for: • Energy costs – 16% • contractual costs – 4.2% • business rates – 5.2% • general expenditure – 0% Inflationary increases create a growth pressure of £0.4m over 2012/13	a. Actual level is above prediction b. Actual levels are below predictions	a. A failure to resource expenditure levels accurately will create an unexpected drain upon resources and the Council may not achieve its objectives without calling upon balances. b. The services may have over provisioned through savings that were unnecessary resulting in an increase in balances or unused resources that could be used to achieve strategic priorities.

Risk Management: Budget Strategy 2012/13 Onwards – Financial Risks **APPENDIX C**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
3.	National Strategy	Effectiveness of central government strategy as outlined in the spending review 2010 and more recent budget announcements	A failure of the national strategy to reduce the structural deficit as planned	This may mean amendments to the resource levels announced in the spending review. To date the strategy has not been as successful as initially predicted. However the government has maintained the predicted level of resources for 2012/13 and has suggested an extended period of time over which the recovery will occur.
4.	Grants & Contributions	Funding received through grants and contributions from other public sector bodies may reduce. Although this sum varies annually it is in the region of £2.5m	A reduction in funding from sources within the public sector could occur as a cascade effect from the consequences of the government's strategy on that body	The consequence of this risk is service specific and where services rely upon external resources or partnership arrangements the service may become at risk of termination if funding cannot be maintained or otherwise resourced.
5.	Limitation of council tax increases	The second arrangement announced by central government for a council tax freeze includes a single year grant equivalent to a 2.5% increase in council tax. This, coupled with the requirement for a public referendum on "excessive" increases in council tax.	Should the grant be accepted by the council, provision must be made in 2013/14 to finance £0.34m without possibility of a tax increase to mitigate the loss in future years.	A 2.5% increase for 2012/13 equates to £339,000 Over the period to 2020/21 the council will have foregone £3m in income based upon an annual uplift in council tax of 2.5% This will create an additional pressure upon the budget and limit the council's ability to deliver upon its priorities.

Risk Management: Budget Strategy 2012/13 Onwards – Financial Risks **APPENDIX C**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
6.	Fees & Charges	Fees & charges and other service based income sources could fail to deliver expected income levels	Service are being effected by falling demand due to the economy. A number of fees & charges have been identified for increases that average 2% of all income from such charges.	A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met. The total value of all income from fees and charges is in excess of £10m.
7.	Capital financing	Availability of funding for the capital programme	The budget strategy includes proposals for the use of new homes bonus that mitigate the majority of the risk from funding of the capital programme. Subject to approval of this approach by Council the risk will be limited to £0.3m if proposed asset sales do not occur.	At the lower level of risk a number of options exist to finance the programme including the options to use prudential borrowing permissions or to create slippage in the programme from 2014/15 into 2015/16.
8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance	Horizon scanning requires input from all service managers and the financial consequences of future issues may not be clearly identified.	On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy. In general these events bring consequences to other agencies and external relationships are important to ensure no such consequences are missed.

Risk Management: Budget Strategy 2012/13 Onwards – Financial Risks **APPENDIX C**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
9.	Efficiency	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence.	Failure to deliver savings and / or failure to monitor and react to non-delivery.	Five of the savings proposed for 2012/13 are considered to be high risk. These total £0.25m. Failure to deliver on any saving proposal places an additional pressure on services levels and / or balances.
10.	Pensions	Pension fund changes	The proposed changes to the pension fund are expected to have limited consequence for employers in the scheme. However the proposals remain fluid at this time and significant debate still surrounds the future of the scheme that could lead to changes in the proposals.	The objective of the changes proposed by central government is to make the pension scheme more affordable. The risk to the council is considered to be low. Involvement with the fund managers at Kent County Council ensures this council is aware of any proposals and their consequences.
11.	Medium term	The medium term financial strategy includes a number of significant future changes to the environment that are being monitored closely: • retention of business rates • council tax benefit changes • work on the core strategy and the local development framework • electoral registration changes • universal credit transition	These are all significant changes for local government and require careful assessment of the possible consequences at each stage of the implementation. These issues are all identified in the medium term financial strategy at a level currently considered adequate to cover the likely consequences to this authority. The total is currently estimated at £0.8m over the period 2013/14 to 2014/15.	The financial consequences based upon current knowledge are outlined in the strategic revenue projection. Should the provision be insufficient to cover the financial consequences to the council this will increase the pressure on the budget in the medium term.

Risk Management: Risk Profile

The risks have been mapped against a typical appetite to risk. The risk assessment has been prepared in the context of key service objectives. The risks at this stage have not been 'mitigated'.

The **vertical axis** shows **Likelihood**:

A = very high; B = high; C = significant; D = low; E = very low; F = almost impossible

The **horizontal axis** shows **Impact**:

1= catastrophic; 2 = critical; 3 = marginal; 4 = negligible

Likelihood	IV	III	II	I
A				
B		9	5; 7	
C		4; 8	6; 11	
D		2a; 2b; 10	1a; 1b; 3	
E				
F				

Impact

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

16 JANUARY 2012

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by John Owen
Accountant (Systems)

1. TREASURY MANAGEMENT STRATEGY 2012/13

1.1 Issue for Decision

1.1.1 In accordance with CIPFA's Code of Practice on Treasury Management, Audit Committee is asked to consider the Draft Treasury Management Strategy for 2012/13 including a series of Treasury and Prudential Indicators.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That Audit Committee considers the draft strategy and recommend to cabinet for approval.

1.3 Reasons for Recommendation

1.3.1 The council has adopted CIPFA's Code of Practice on Treasury Management and this requires that the council sets out a treasury management strategy on an annual basis. This report considers the proposed strategy for 2012/13 onwards along with current guidance from CIPFA and the DCLG.

1.3.2 The primary requirements of the Code are as follows:

a) Receipt by full Council of an annual Treasury Management Strategy that includes the Annual Investment strategy and Minimum Revenue Provision Policy for the year ahead.

b) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

c) Delegation by the Council of the role of scrutiny of treasury management strategy and policies, a Mid Year Review Report and an Annual Report covering activities during the previous year to an appropriate committee. Delegated to the Audit Committee by the Council.

1.3.3 The agreed process for approval at this Council is:

a) Audit Committee will consider, as part of their monitoring role, the initial draft and make recommendations to Cabinet.

b) Cabinet will consider the draft and any recommendations from Audit Committee and recommend to Council

c) Council will approve the strategy each March for the forthcoming financial year.

2011/12 Strategy

1.3.4 The Strategy for 2011/12 set out the following objectives:-

a) Keep investments short term (up to 1 year) to help fund the existing capital programme when needed and to make funds available to invest if rates increased;

b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term;

c) No planned borrowing, other than for short-term cash flow purposes. The council is currently debt-free;

d) Group limits placed on institutions within the same ownership group;

e) The Head of Finance & Customer Services be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector Treasury Management (the Council's advisors) or from another reliable market source.

1.4 Current Cashflow Performance

1.4.1 At the November Audit Committee meeting the mid-year performance report included details for 2011/12 of the position as at 30th September 2011. Listed below is an update on that position.

1.4.2 The Council's current investment position is given in the table below.

	£m	%
Investments as at 1st April 2011	**21.0**	
Investment Balance as at 31st Dec 2011	**33.6**	
Investment Income as at 31st Dec 2011	**0.23**	
Ave Balance/Rate of Investments during year	**27.0**	**1.1**
Est. Investments as at 31st March 2012	**17.0**	

1.4.3 All investments have been on a short-term basis to be used, as agreed within the Strategy.

1.4.4 £3m of core cash funds were invested for 1 year with Lloyds TSB (part nationalised bank).

1.4.5 The average rate of interest received on the council's investments over the period was 1.1% compared to a forecast level of 1.0%. Investment income as at 31st December 2011 is £230,000 compared to a budget of £185,000.

1.4.6 There has been continued concern with all financial institutions within the UK having their credit ratings reduced. This is mainly due to the current economic situation in Europe. It is Sector's view that the semi nationalised banks, e.g. RBS and Lloyds groups, will be safe but there is uncertainty with other UK institutions. With this in mind, the Head of Finance and Customer Services (in line with his delegated authority) has reduced the exposure to these other institutions down to a maximum of three month term deposits, as recommended by Sector, and the use of building societies down from top 10 to top 5. This ensures that the greater part of the Council's finances will be very liquid and placed with higher rated institutions.

1.4.7 Based on the current cash flow projection the Council has anticipated cash balances at 1st April 2012 available for investment totalling £17m.

1.5 Cash Flow Projection to 2014/15

1.5.1 A cash flow projection up to March 2015 has been created reflecting the spending proposals in the Budget Strategy 2012/13 onwards. The cash flow projection shows that anticipated investment income will be consistently £0.25m per annum over the period from 2012/13 to 2014/15. This is based on the anticipated sales of Council fixed assets and interest rates remaining as forecast.

1.5.2 There is no planned borrowing to fund the capital programme up to March 2015.

1.6 Annual Investment Strategy

1.6.2 In formulating and executing the strategy for 2012/13, the Council will have regard to the DCLG's guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.

1.6.3 CIPFA's Treasury Management Code of Practice states that "in balancing risk against return, local authorities should be more concerned to avoid risks rather than maximising return". Therefore the underlying principles of the strategy are to ensure absolute security of Council funds, and to minimise large variations in annual investment returns, which would impact upon the budget.

1.6.4 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on lend and make a return is unlawful and the Council will not engage in such activity.

1.6.5 The Council, in conjunction with its treasury management advisor, Sector, will use Fitch, Moodys and Standard and Poors ratings in combination to derive its credit criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings of all agencies through its use of the Sector creditworthiness service.

1.6.6 If a downgrade means the counterparty or investment scheme no longer meets the Council's minimum criteria, its use for further investment will be withdrawn immediately.

1.6.7 If a body is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, then no further investments will be made with that body.

1.6.8 In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the Council's lending list.

1.6.9 The use of leading building societies for investment purposes has already been reduced by the Head of Finance & Customer Services from top 10 down to top 5 ranked on asset size of the society. In considering the effectiveness of this decision an alternative ranking system has been identified that uses a combination of management expenses of the group, as shown within the Income and Expenditure Account, as well as the asset size. This is a better indication of how the group would bear within stressful economic times. The draft strategy for 2012/13 proposes the use of this measure. This has been discussed with the Council's treasury management advisors.

1.6.10 Other market intelligence will also be used to determine institutions credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. Kent Treasury Management Forum. If this information shows a negative outcome, no further investments will be made with that body.

1.6.11 The Head of Finance & Customer Services has previously been given delegated authority to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Cabinet Member for Corporate Services on any possible use of these instruments. This delegation has not been exercised to date.

1.6.12 The following table shows the balance of investments which will mature during 2012/13 and the total of this balance which will be needed to fund the revenue/capital expenditure.

Investment	**2012/13 £m**
Short Term Investments at start of Year	17.0
Use of Balances/Capital receipts	12.0
Total Core Cash	**5.0**

1.6.13 These maturities will therefore cover the anticipated use of cash balances for the period and leave £5.0m available for investment, along with day to day cash flow management funds.

1.7 Interest Rate Forecast

1.7.1 As part of their service Sector Treasury Management assist the Council to formulate a view on interest rates. Below is a table which forecasts short term (Bank Rate) and longer term fixed interest rates that reflects their current view on the future.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

1.7.2 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. An export led recovery appears unlikely due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

1.7.3 This uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;

1.8 Strategy for 2012/13

1.8.1 Based on the issues outlined and following consultation with the Council's Treasury Management advisors the following strategy is recommended:

1.8.2 The counterparty list - ***Appendix A***

a) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.

b) Group limits placed on institutions within the same group and not separate for each institution. This is an added security measure as there is a burden upon the parent company. The group limit will be the highest individual credit criteria for the group.

c) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.

d) A reduction in overseas institutions due to the uncertainty of Sovereignty status', with the exception of Svenska Handelsbanken, a AAA rated Swedish Organisation with whom the Council currently has funds.

e) The top 5 Building Societies, ranked using the management expenses and asset size ranking.

1.8.4 Focus on Treasury Management 2012/13

a) Invest funds short term (up to one year) so that funds are available to invest when rates increase.

b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term. This would leave a balance of £2m if there were to be any unexpected events.

c) There is no borrowing assumed within the 2012/13 strategy.

1.8.5 Treasury Indicators

The Indicators important to the Treasury Management strategy are detailed on the attached ***Appendix B***, the most important of which are listed below. The upper and lower limits are set with reference to the peaks and flows of cash flow throughout the year. There always exists the possibility of the limits being approached at the start and end of each financial year when the income stream is at its lowest:

a) Authorised Limit for External Debt

This places an upper limit on the Authority's borrowing by indicating a level of debt that the authority calculates is affordable and relevant. Along with the debt held for the financing of capital expenditure and other long term liabilities, this limit includes provision for day to day cash flow needs. Borrowing above this limit should not occur.

b) Operational Boundary for External Debt

This provides a limit for day to day cash flow management. It is the equivalent of the Authorised Limit for External Debt without the allowance for cash flow purposes. It is intended that Treasury Management on a day to day basis should use this limit as a focus. Borrowing to exceed this limit should only occur for short periods of time for cash flow management purposes.

c) Actual Debt

The closing balance of actual gross borrowing plus other long term liabilities. This considers a single point in time and is only directly comparable to the authorised limit and operational boundary at that point in time.

d) Upper Limit for Fixed Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a fixed rate of interest. Due to the nature of the Council's cash flows it is likely that this limit will only be approached at the start and the end of the financial year when there are less surplus fund s available for surplus investment. (Fixed rate is defined as any borrowing or investments where the rate is fixed but only where the period is in excess of one year.)

e) Upper Limit for Variable Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a variable rate of interest. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made. (Variable rate is defined as any borrowing or investments for a period up to a maximum of 364 days, irrespective of whether the rate is fixed or not.)

f) Upper Limit for Total Principal Sums Invested over 364 days

This limit has been set in consultation with the Council's Treasury Management Advisers, and the background to this is dealt with in more detail in the proposed investment strategy earlier in this report.

g) Maturity Structure of New Fixed Rate Borrowing during 2012/13

This indicates the assumed maturity structure for any borrowing that may occur at a fixed rate of interest, during 2012/13. As any borrowing is expected to be for cash flow purposes only it will be short term borrowing at variable rates.

1.8.6 Investment instruments identified for potential use in the financial year are listed at ***Appendix C*** under the 'Specified' and 'Non-Specified' investments categories, as per DCLG's guidance. Specified instruments are those investments which are sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum high rating criteria. Non-specified investments are included at the Council's discretion, based on guidance from our treasury management advisors.

1.9 Alternative options and why not recommended

1.9.1 The Council is required to endorse a Treasury Management Strategy and monitor and update the strategy and Prudential Indicators as necessary. The Council could endorse a simple strategy for Treasury Management. However this would be contrary to best advice from the Council's advisors and likely to produce a reduced income stream from investments.

1.9.2 External Fund Managers – by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk to capital receipts which would make it difficult to ascertain a suitable sum to assign to an external manager.

1.10 Impact on Corporate Objectives

1.10.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the council's balances. These resources are incorporated in the council's budget.

1.11 Risk Management

Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors, Sector, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.

1.12 Other Implications

1.12.1

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

1.13 Relevant Documents

1.13.1 Appendices

Appendix A - Counterparty List
Appendix B - Prudential Indicators
Appendix C - Specified & Non-specified Investments

1.13.2 Background Documents

Working papers held in the Corporate Finance office.

IS THIS A KEY DECISION REPORT?

Yes		No	x

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

………..

This is a Key Decision because: ………………………………………………………………………..

…….

Wards/Parishes affected: ……………………………………………………………………………..

……..

MAIDSTONE BOROUGH COUNCIL

COUNTERPARTIES LIST 2012/13

Sector's Suggested Credit Rating Methodology

Sector has recently implemented a new credit rating system that incorporates credit ratings from all three major rating agencies; Fitch, Moody's, and Standard & Poor's. The system uses all the available ratings and, as such, uses a four-way approach to produce a mathematically calculated, risk-weighted score that is then compared to pre-determined credit scoring bands. The system uses the Long term, Short term, Individual, and Support ratings to produce the credit score. Depending on which band the credit score falls between, determines the duration that Sector suggests lending to for that institution.

Sector Colour Key.

24 months duration / £8m Limit
12 months duration / £5m limit
12 months duration / £5m limit - Part Nationalised
6 months duration / £3m limit
3 month duration / £2m limit
Building Societies - 6 months £2m limit

As well as limits on the amount of funds that can be placed with individual counterparties, Sector would suggest imposing group limits. The group limit should be equal to the individual limit of one counterparty within the same group.

Bank Grouping Key

Santander Group, UK	**1**
Lloyds Banking Group, UK	**2**
Royal Bank of Scotland plc, UK	**3**

Institution Name	Country	Group		Deposit	Suggested Term
UK INSTITUTIONS MEETING MINIMUM RATING CRITERIA					
Alliance & Leicester	UK	1		£3,000,000	6Months
Cater Allen	UK	1		£3,000,000	6Months
Bank of Scotland Plc	UK	2		£5,000,000	1yr
Barclays Bank plc	UK			£3,000,000	6Months
HSBC Bank plc	UK			£5,000,000	1yr
Lloyds TSB	UK	2		£5,000,000	1yr
National Westminster Bank	UK	3		£5,000,000	1yr
Royal Bank of Scotland plc	UK	3		£5,000,000	1yr
Santander UK	UK	1		£3,000,000	6Months
Ulster Bank Ltd	UK	3		£5,000,000	1yr
OVERSEAS INSTITUTIONS MEETING MINIMUM RATING CRITERIA					
Svenska Handelsbanken	SWE			£5,000,000	1yr
UK BUILDING SOCIETIES	**RANK BY ASSET SIZE**	**RANK BY MAN EX**	**TOTAL**		
Coventry	3	1	4	£2,000,000	6Months
Yorkshire	2	4	6	£2,000,000	6Months
Nationwide Building Society	1	6	7	£2,000,000	6Months
Leeds	5	2	7	£2,000,000	6Months
West Bromwich	6	5	11	£2,000,000	6Months
OTHER PUBLIC BODIES					
UK Government				£8,000,000	2yrs
UK Local Authorities (Inc.Police & Fire Authorities)				£8,000,000	2yrs
MONEY MARKET FUNDS (AAA RATED)					
Goldman Sachs				£8,000,000	2yrs
Prime Rate Capital Management				£8,000,000	2yrs

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

2011/12 %	2012/13 %	2013/14 %	2014/15 %
-1.3	-1.1	-1.6	-2.3

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
i) Forecast of total budgetary requirement no changes to capital programme	7,340	4,476	2,018	1,820
ii) Forecast of total budgetary requirement after changes to capital programme	7,490	4,626	2,018	1,820
iii) Additional Council Tax Required	2.49	2.46	0.00	0.00

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
7,490	4,626	2,018	1,820

This is the estimate of capital expenditure taken from the Corporate Revenue and Capital Budget 2011/12 Onwards .

Capital Financing Requirement

2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
0	0	0	0

This indicator measures the underlying need to borrow for capital purposes.

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS

Authorised Limit for External Debt

	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Borrowing	8,000	8,000	8,000	8,000
Other Long Term Liabilities	6,684	6,294	5,891	5,463
Total	14,684	14,294	13,891	13,463

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Borrowing	4,000	4,000	4,000	4,000
Other Long Term Liabilities	6,684	6,294	5,891	5,463
Total	10,684	10,294	9,891	9,463

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

2011/12 %	2012/13 %	2013/14 %	2014/15 %
100	100	100	100

Upper Limit for Variable Interest Rate Exposure

2011/12 %	2012/13 %	2013/14 %	2014/15 %
80	80	80	80

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

Maturity Structure of New Fixed Rate Borrowing during 2011/12

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and over	100	0

It is may be necessary to borrow that at fixed term rates during 2012/13. This will be monitored as the year progresses and a decision will then be made.

PRUDENTIAL INDICATORS

Principal Invested for more than 364 Days

2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
3,000	5,000	3,000	3,000

This indicator is set to reflect current advice from our Treasury Management Advisors.

Actual External Debt for 2011/12

	2010/11 £,000
Actual Borrowing	0
Other Long Term Liabilities	6,684
Total	6,684

Actual point in time of external borrowing

LIST OF SPECIFIED & NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS (SHORT TERM ONLY)	Minimum 'High' Credit Criteria	Use
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
Certificates of deposits issued by banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
UK Government Gilts	Long term AAA	In-house
Bonds issued by multilateral development banks	Long term AAA	In-house
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house
** Only credit-rated building societies in top 5 ranked by asset size/man exp are included*		
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	AAA	In-house

NON-SPECIFIED INVESTMENTS (UP TO 1 YEAR MAXIMUM)	Minimum Credit Criteria	Use
Fixed term deposits with variable rate and variable maturities: -		
Term deposits with unrated Building Societies	Top 5 Building Societies, excluding Nationwide as highly credit rated.	In-house
Commercial paper issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house
Corporate Bonds issued by UK banks covered by UK Government guarantee : the use of these investments would constitute capital expenditure	UK Government explicit guarantee	In-house
Corporate Bonds other : the use of these investments would constitute capital expenditure	Short-term F1, Long-term A, Individual B, Support 3	In-house
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
Certificates of deposits issued by banks	Short-term F1, Long-term A, Individual B, Support 3	In-house
UK Government Gilts	AAA	In-house
Bonds issued by multilateral development banks	AAA	In-house
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 10

Document is Restricted