

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 17 December 2014

BUDGET STRATEGY 2015 16 ONWARDS - REVENUE

Issue for Decision

The report is produced annually to update the Cabinet on the budget strategy and normally follows the publication of the provisional finance settlement figures. The Autumn Statement was given by the Chancellor of the Exchequer on 3rd December 2014 and the provisional finance settlement, although imminent, had not been received at the time of writing this report.

A decision on the recommendations in this report also enabled the Cabinet to formally consult the Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the current situation in relation to the budget strategy in January 2015. Such consultation is a requirement of the Constitution.

It was essential that Cabinet considered the latest information at this time in order to remain on target for a balanced budget to be presented to Council at the end of February 2014.

Decision Made

That:

- (a) the provisional allocation of the local council tax support funding be agreed as set out in Appendix B to the report of Corporate Leadership Team and be notified to parish councils along with their tax base;
- (b) the revised strategic revenue projection be agreed as detailed in Appendix A to the report which incorporates the changes outlined in sections 1.7 to 1.9 of the report and amended to include £0.16m contribution to temporary accommodation costs in the housing service, resourced by an equivalent reduction in the local plan budget within planning policy be agreed;
- (c) the proposed savings as set out in Appendix C to the report be agreed;
- (d) the proposed use of earmarked reserves and the allocation of the general fund balances be agreed as set out in Appendix D to the report as amended to include an allocation to planning policy for a maximum sum of £0.48m to allow for the completion of the local plan over a three year period;

- (e) the outcome from the completed consultation exercise and the impact on the budget strategy as set out in 1.13 to the report be noted; and
- (f) the work of the budget working group and formally consult Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the decisions arising from this report be noted.

Reasons for Decision

On 10th September 2014 the Cabinet considered the initial budget strategy for 2015 onwards. At that time a strategic revenue projection (September SRP) was agreed, including a provisional level of Council Tax as a planning and consultation tool. The September SRP included increases for inflation based on information provided by key officers and future indices from sources such as the office of budget responsibility.

The September SRP used an estimate of resources at £32.7m and predicted expenditure, including new budget pressures, of £33.6m. This meant a need to find savings in 2015/16 of £0.9m. At that time a number of risks were considered by Cabinet:

- a) The future consequence of the government's spending round 2013.
- b) Possible enhancements to the business rates pool.
- c) Potential council tax levels.
- d) The level of other income being achieved.
- e) Commercial activity
- f) Future year's issues on single tier pensions.
- g) A series of local pressures including King Street Multi Storey Car Park and the Local Plan.

Since the initial report some of the factors have changed and the effect of these changes on the September SRP is considered later in this report.

The Chancellor of the Exchequer made the Autumn Statement to parliament on 3rd December 2014 and this is considered below. As a consequence of that statement the Department for Communities and Local Government (DCLG) provide each authority with its provisional finance settlement for the following year, at the time of writing this report the settlement information had not been received.

The Autumn Statement

The Autumn Statement is one of two major statements made by the Chancellor of the Exchequer each year. The other is the Budget Statement usually presented in March. The Chancellor presented the Autumn Statement to Parliament on 3rd December 2014. This announcement precedes the receipt of the provisional finance settlement.

Issues important to local government in the Autumn Statement include:

- a) Recognition of the work of the public sector in reducing the deficit and a commitment that the new decisions announced will not be funded through a further reduction in local government funding;
- b) A commitment to the continued support of small and medium enterprises including a second year of capping the business rates increase to 2%;
- c) The continuance of the small business rates relief extension and other small business exemptions currently in existence;
- d) A commitment to review the structure of business rates in 2016 that will be fiscally neutral but with no commitment to this neutrality being at the level of individual authorities; and
- e) Changes to the period over which business rates appeals are backdated.

The statement contained no detail at a service or local level and at this time it is expected that the additional support to health and other services will continue to impact on the funding provided to district councils in a disproportionate way.

Until the details of the provisional finance settlement are published by the DCLG it will be difficult to identify the exact impact on this council.

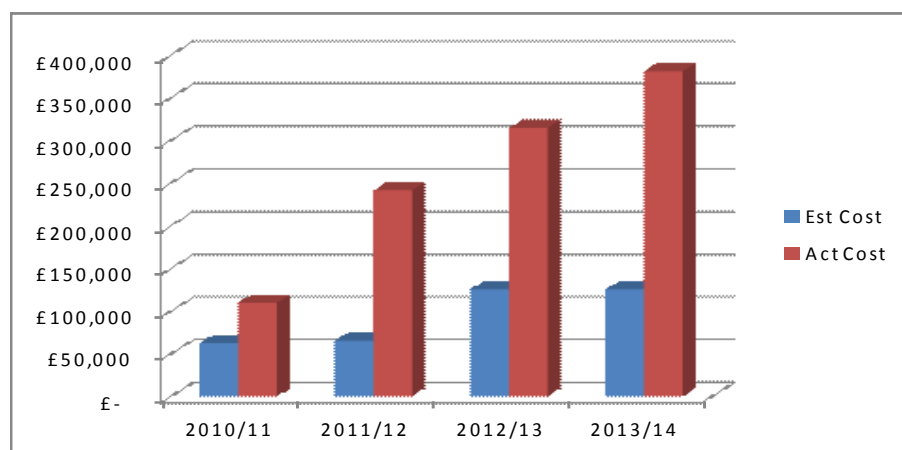
Review of Current Performance

The current year's financial performance is reported to the Corporate Leadership Team and to the Cabinet on a quarterly basis. The first two quarterly reports show a favourable position with an expected outturn of £0.36m under spend at 31st March 2015.

The main budget messages are the continued increase in cost of temporary accommodation and the continued increase in income from both waste & recycling and planning services.

The increase in temporary accommodation costs began in 2010 as can be seen from the chart below. The chart shows, over four years, the budgetary provision and the actual net spend on temporary accommodation:

1. The left hand set of bars represent the budget provided for each year,
2. The right hand set shows the actual expenditure in each year.



The increase in income from the waste & recycling service and the planning service are continuations of the increase in demand seen in those areas in 2013/14. The income is providing support for the overall level of fees and charges which has not delivered to target. This issue is set out in the Fees and Charges Report elsewhere on this agenda.

Review of Revenue Resources

Given at Appendix A to the report of Corporate Leadership Team was a revised strategic revenue projection (revised SRP) that took into account all of the changes set out in the following sections of this report.

The finance settlement

As stated earlier in the report the DCLG is due to publish the provisional finance settlement for 2015/16 but at the time of writing this report no information has been received. The details in this report are based on the notional figures provided as part of the 2014/15 settlement which set the provisional level of revenue support grant received by the council and the baseline level of business rates retained by the council as those given in the table below:

	£,000
Revenue Support Grant	2,251
Business Rates	2,983
Total	5,234

It was expected that the provisional finance settlement for 2015/16 would be announced before the meeting of Cabinet and it was intended that Officers give a verbal update to this report at the meeting. However, no figures had been announced by the time of the meeting.

The settlement figures include the central funding towards local council tax support (LCTS) that replaced council tax benefit from 1st April 2013. At its meeting on 12th December 2012 the Council approved the current scheme in operation in the borough and has reconsidered the scheme annually, most recently the scheme was considered by the Council at its

meeting on 10th December 2014.

The government funding for the scheme, as set up back in 2013/14, represented 90% of the government's predicted expenditure on council tax benefit. This was based on actual costs for the year 2012/13. By 2014/15 the funding for LCTS was no longer identified separately in the settlement figures.

Part of the LCTS funding related to the benefit paid to claimants in parish areas. This is because the local scheme affects parish precepts in the same way as it affects the Council's income from council tax. As in prior years, the effect was considered by the General Purposes Group when it set the Tax Base for 2015/16. The government has stated that it expects appropriate consideration of the funding of parish councils to be made by district councils when planning for overall funding levels. However it has not legislated for the payment of this funding on to parishes.

In previous years the Council has chosen to pass on the funding to parish councils. Resources totalling £110,631 were passed on in 2013/14. Resources totalling £96,802 were passed on in 2014/15. The reduction in the level of resource has been linked to the overall reduction in the level of the funding received by the Council through the finance settlement each year. On that basis the indicative reduction for 2015/16 would be 15.27% of the current year's distribution.

$$96,802 * 15.27\% = £14,778.$$

Reducing the current year's resource by £14,778 would leave a balance of £82,024 to be distributed in 2015/16.

Individual parish council funding is distributed on the basis of predicted demand for the local council tax support in each parish as set out in the decision of General Purposes Group and the proposed distribution is given at Appendix B to the report.

The estimate was the best available at this time. Following consultation with Strategic Leadership and Corporate Services Overview and Scrutiny Committee in January 2015 and the announcement of the confirmed financial settlement figures in February 2015 the Cabinet will have a second opportunity to consider this issue. However, it will be too late by then to notify parish councils of the outcome if they are to incorporate the figures into the calculation of their precept.

Parishes are required to notify the council of their precept requirement before the end of January 2015.

Council Tax

The Council's 2014/15 council tax charge is £231.12 per annum for a band D property.

At the meeting on 10th September 2014 the Cabinet agreed a SRP for planning purposes that included an assumed 2.5% increase in council tax income. This represented a 1.99% increase in the council tax charge and

a 0.5% increase in the tax base arising from new property.

In 2013 the Government announced support for a council tax freeze for the two years 2014/15 and 2015/16. This announcement offers a grant equivalent to a 1% increase for the two years. The Council did not accept the freeze grant in 2014/15 as it presents an increased financial risk to the future resources of the Council.

On 8th December 2014 the General Purposes Group approved a tax base of 56974.3 for the borough area. This is a 0.94% increase over the tax base for 2014/15. This actual tax base figure is higher than the tax base prediction that was used in the production of the September SRP.

A council tax increase of 1.99% will produce a band D charge of £235.72. This represents an increase of £4.60 per annum or 38 pence per month. This level of charge made on the tax base detailed above would generate council tax receipts of £13.4m for the council.

It was noted that a decision on the level of council tax that the Cabinet would wish to recommend to the Council need not be taken at this time. Cabinet noted that the revised SRP given at Appendix A to the report included a 1.99% increase consistent with the increase set for planning purposes in September 2014.

Elsewhere on the agenda Cabinet had considered a report on the collection fund adjustment. The recommendation of that report was to distribute approximately £1.8m across the major preceptors and this council. The share calculated for this council is £302,209 and this has been added to the resources available to the Council in the revised SRP set out at Appendix A to the report.

Income from Other Sources

The estimated income for the council generated from other source is £13.9m for 2014/15. This represented all income and does not account for the cost of the services that generate this income. In some cases this income is a contribution to overall costs. From a small number of services the council generates a surplus from the activities. This surplus is used to support other service provision except in cases where legislation limits the use of a surplus.

This income is divided between:

Income Type	£,000
Grants and contributions	341
Charges to other organisations (incl. partnership)	4,591
Interest on investments	250
Rents (commercial and residential)	1,063
Fees and charges to service users	7,693
Total	13,938

Cabinet approved the Commercialisation Strategy at its meeting in August 2014. This strategy proposed a target level of net increase in income of £1m over five years. The SRP attached assumes an equal annual increase in income generated of £0.2m. Cabinet will soon consider the business

case for each of a series of proposals that will enable the Council to generate this income.

Elsewhere on the agenda Cabinet considered a report on future fees and charges. The report recommended increases in some fees and charges that will increase income budgets by £76,300 in 2015/16. Those increases have been included in the revised SRP attached at Appendix A to the report and any amendment to the recommendations in that report will affect the figures as shown.

Combining the resources available to this council from the revenue support grant, business rates income, council tax income, the collection fund adjustment and income from other sources gives estimated resources for the period of the revised SRP of £33.2m for 2015/16 as tabled below. Cabinet noted that the level of resources available from revenue support grant estimated for the years 2016/17 and beyond assume an effect related to the future spending review 2015 announced by the Chancellor in March 2013. Although a projection is given, no actual detail is available on the rate at which the resources available to this council will reduce or whether the reduction will be seen through the revenue support grant or through another source of government funding.

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
Revenue Support Grant	2,251	1,463	922	420	0
Business Rates	2,983	3,043	3,104	3,166	3,229
Business Rates growth	42	52	62	72	82
Collection Fund Adjustment	302	0	0	0	0
Council Tax	13,430	13,766	14,110	14,462	14,824
Other Income	14,214	14,414	14,614	14,814	15,014
Available Resources	33,222	32,738	32,812	32,934	33,149

Review of Strategic Projection

When the Cabinet agreed the September SRP officers were set the task of continuing to review the budget pressures and identify additional savings to balance the budget.

Since that time there has been a series of meetings managed by the Chief Accountant in order for her to meet with each Head of Service and identify proposals that offer potential savings and efficiencies and these were considered later in the report.

No further amendments were proposed in relation to budget pressures and the revised SRP set out in Appendix A to the report, taken in combination with the revised assessment of resources available to the Council, requires the provision of savings in 2015/16 of £0.42m compared to the £0.94m requirement set out in the Cabinet decision in September 2014. The values for each year of the five year projection are set out in the table below:

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Available Resources	33,222	32,738	32,812	32,934	33,149
Projected Requirement	33,640	34,026	33,272	33,388	33,438
Savings Target	418	1,288	460	454	289

Review of Savings Proposals

Savings and efficiency data were not reported in detail to Cabinet in September 2014. The targets were set out and it was identified that some savings proposals existed, in the main these came from plans developed for the 2014/15 strategy. The September 2014 report suggested that, set against a need to find £0.96m in savings, plans existed to save £0.4m.

As stated previously, the revised SRP at Appendix A to the report showed a need to save £0.42m in 2015/16 and attached at Appendix C to the report was a more detailed analysis of savings. Along with the savings previously identified this list includes additional proposals that have been identified through meetings between the Council's Chief Accountant, Heads of Service and relevant Cabinet Members. The value of these proposals, set against the required need for savings in each of the five years considered by the revised SRP, are tabled below.

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Savings requirement in SRP	418	1,288	460	454	289
Savings proposals	418	304	50	0	0
Savings still required	0	984	410	454	289

The savings requirement set out above assumes approval to the proposed fees and charges set out in a report elsewhere on the Cabinet agenda. In addition the delivery of £0.2m from commercial activity in 2015/16 has been assumed. Should the resources delivered by either of these be amended, it will be necessary to identify additional savings from new ideas or, where possible, bring forward proposals currently identified for 2016/17 or later years.

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

The budget working group has now met on three occasions since the Cabinet meeting in September 2014 when the Cabinet agreed the September SRP for planning and consultation purposes.

The working group has completed an in-depth review of the provisional business plans and proposals that will be brought forward to achieve the objectives of the commercialisation strategy. This was completed so that the group could be confident that the assumptions built in to the medium term financial strategy are achievable.

The group has also considered a number of other aspects of the medium term financial strategy:

- a) the proposed fees and charges increases set out in a separate report elsewhere on this agenda;
- b) the link between budgetary provision and the priorities set out in the draft strategic plan elsewhere on this

agenda; and

- c) the savings and efficiencies set out in Appendix C of the report;

In addition the group considered a reference from Audit Committee arising from the external auditor's report on the accounts. Two issues were raised in that report that the Audit Committee felt would benefit from seeking the views of the budget working group before consideration by the Audit Committee and by the Cabinet, they were:

- a) That the level of balances relative to net revenue expenditure, held by the Council is low in when compared to the Council's local authority family group.

While the budget working group recognised the statement as fact they also felt that it was not necessarily evidence of good financial management to hold excessive levels of balances. It also noted that, given the current financial climate, it would not be appropriate for the Council to raise its level of balances if this meant an additional rise in council tax rather or diverting resources from service provision.

- b) That the Council only recognises a single general fund balance and does not identify earmarked reserves for specific purposes.

The budget working group felt that there were appropriate elements of the Council's general balance that could be identified as earmarked reserves and felt that officers should seek approval of Cabinet to set up earmarked reserves when such action was truly appropriate. It is proposed later in this report that a small number of earmarked reserves should be created.

The group will report on its work to the January 2015 meeting of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee. At that meeting the Committee will formally consider the Cabinet's decisions on issues relating to the budget strategy arising from various reports on this agenda.

New Homes Bonus

Along with the finance settlement, it is expected that the government will also announce the allocation of New Homes Bonus for the forthcoming year. This is the fifth year of the programme and the Council should receive an amount equivalent to last year's payment plus the new sum specifically for housing growth during the period October 2013 to October 2014.

The Chancellor has previously announced a review and top slice of NHB to support a £2bn growth fund. This matter was deferred and resources to support the growth fund were identified at a national level from other

budgets. It remains appropriate to assume that the new homes bonus programme will be subject to a review of effectiveness in the next parliament and that the Council should remain prepared for a change in resources received from this programme.

Cabinet had previously considered the future use of NHB and agreed that resources should be set aside to support the Capital Programme and the level of future funding is considered in the Capital Budget Strategy report elsewhere on the Cabinet agenda.

Balances

Given the detrimental factors that will continue to face local government Cabinet were mindful of the level of resources and the potential need that the Council may have for those resources to remain financially stable, until the current economic situation improves.

The estimated level of general fund balance as at 31st March 2015 is £4.5m plus provisionally allocated sums of another £1.4m. There are no proposed uses in 2015/16 at this time and balances are assumed to remain stable. A statement of balances was set out in Appendix D to the report.

For 2014/15 the Council has set a minimum level of balances of £2m and the Cabinet have agreed to set a working balance of £2.3m below which it is not expected that the Cabinet will utilise balances. This means that balances in the sum of £2.2m remain available for use.

In paragraph 1.9.4 of the report it was identified that the budget working group had given consideration to the recommendations of the council's external auditor regarding the level of balances and earmarked reserves. At this time the council does not earmark reserves for specific purposes and this allows a greater flexibility over the use of those resources. It does however mean that in cases where the council has made a specific decision to set aside resources this is not identified clearly when reviewing the statement of accounts or reports, such as the report, on financial matters.

At the request of the Audit Committee the budget working group has considered the issue and it is felt that, given the current financial pressures facing the Council it would be impossible to increase the level of reserves significantly and any such plan should not be part of the MTFS at this time. The budget working group did agree that the use of earmarked reserves would be beneficial in two circumstances:

- a) Where a decision has been made to set aside specific resources rather than general balances, such as is the case with new homes bonus receipts being set aside for the financing of capital expenditure; and
- b) Where statutory or other decisions require specific resources to be held for a specific purpose, such as surpluses from trading accounts (i.e. building control)

that are able to generate a surplus in a single year but must break even over a rolling period.

It was recommended that the following earmarked reserves were created for the current year so that they are identified in the statements on 31st March 2015 and carried forward:

- a) Capital support from revenue resources. This would incorporate all revenue resources set aside to support the capital programme. In the main this means new homes bonus receipts but can mean specific one off contributions made by managers to support specific services.
- b) Local plan funding. This incorporates the specific resources previously set aside to produce the local plan and currently carried forward each year within general fund balances.
- c) Trading account surpluses. This would incorporate surpluses and deficits generated by statutory trading accounts to ensure they break even in accordance with legislation, normally on a three year rolling basis.

The expected level of resources in those earmarked reserves was also set out in Appendix D to the report.

Consultation

This year's budget consultation was combined with the consultation on the new strategic plan. This was completed, in the main, through a series of roadshows. Officers and Cabinet Members have taken the roadshow to multiple locations throughout the borough during October and November. The results are set out in detail in the report on the Strategic Plan 2015 – 2020 elsewhere on the Cabinet agenda.

The public response indicates that the greatest importance is placed on two priorities: clean and safe; and transport.

The clean and safe priority is the area with the highest level of revenue funding within the budget. This area has also provided the greatest level of efficiency savings in recent years due to initiatives like the current refuse contract and the in-house commercial waste service.

Transport infrastructure is not the direct responsibility of the council but there are revenue resources directed to public transport and parking management. In addition the council has agreed to set aside substantial capital resources for infrastructure and is developing a community infrastructure levy. Planned uses for these resources are linked to the local plan and include transport proposals.

Medium Term Financial Strategy and Strategic Plan

The medium term financial strategy (MTFS) is closely aligned to the strategic plan which was reported elsewhere on the Cabinet agenda. In addition the MTFS must reflect the Cabinet's decisions arising from this report along with the finance settlement information that has not yet been published by the DCLG.

The element of the MTFS that relates to the Council's capital programme has been updated for the period 2015/16 to 2019/20 and was provided as an appendix to the Capital Budget Strategy report elsewhere on the Cabinet agenda.

The element of the MTFS that relates to the Council's Revenue Budget Strategy has not been updated at this time. It will however be amended based on the various outstanding decisions on the agenda along with data from the Council's finance settlement once known. The complete document, both capital and revenue, will be reported to the Cabinet in February 2015 when consideration is given to the recommendations of Cabinet to Council on the budget and council tax levels.

Alternatives considered and why rejected

The production of the budget is an element of the statutory process of setting the council tax each year. In addition the final document and budget is required to be robust and adequate under the Local Government Act 2003 and the Chief Financial Officer is required to give a statement to that fact. On this basis the actions outlined in this report must be considered and a balanced budget ultimately set by March 2015.

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

- a) The finance settlement – As the DCLG has not yet provided the Council with the provisional settlement figures for 2015/16 the figures used in this report are the indicative figures provided to the Council a year ago. Although the Chancellor's Autumn Statement suggests that there will be no significant financial impact on local government nationally the statement is not specific enough to confirm that this will be the case for this Council.
- b) The indices used to calculate future inflation and contractual commitment – These indices are continuously updated and a revised set of values could be developed, however the level of change likely to occur is not significant and it is proposed that current resources will be re-prioritised if the level of growth allowed in any particular budget area proves to be insufficient.
- c) Savings – The identification of significant and deliverable savings is becoming increasingly difficult. Careful and thorough monitoring of outcomes will need to continue during 2015/16.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **30 December 2014**