

MAIDSTONE BOROUGH COUNCIL

CABINET

WEDNESDAY 11 FEBRUARY 2015

**REPORT OF DIRECTOR OF REGENERATION AND
COMMUNITIES**

Report prepared by Paul Riley

1. BUDGET STRATEGY 2015/16 ONWARDS

1.1 Issue for Decision

1.1.1 This report brings together the revenue and capital budgets for 2015/16 with a view to recommending a balanced budget to Council on the 25 February 2015 including a proposed level of Council Tax.

1.1.2 The budget outlined in this report incorporates the growth and savings agreed at the Cabinet meeting on 17 December 2014. The report also identifies issues emerging since that time.

1.1.3 The report provides information on the financial position beyond 2015/16 to assist the Cabinet with decision making and agreeing a medium term financial strategy.

1.2 Recommendation of Director of Regeneration & Communities

1.2.1 It is recommended that the Cabinet:

- a) Note the results of the consultation exercises detailed in section 1.6 of the report;
- b) Consider the views of Strategic Leadership and Corporate Services Overview and Scrutiny Committee in relation to mitigating risks regarding housing acquisitions and the request for member training on risk management;
- c) Consider the views of Audit Committee regarding the risk assessment on the details set out in 1.6.15 and 1.6.16 relating to maximum risk exposure;

- d) Agree the Revised Estimate 2014/15 as set out in Appendix E, for recommendation to Council;
- e) Agree the Estimate 2015/16 as set out in Appendix E and incorporating the savings proposed at Appendix D and the growth items set out in Appendix B, for recommendation to Council;
- f) Agree to recommend to Council adoption of a minimum balance of £2,000,000 as set out in section 1.17;
- g) Agree working balances should be set at £300,000 above minimum balances approved by Council, which would currently be £2,300,000;
- h) Agree the capital programme set out in Appendix G, for recommendation to Council;
- i) Consider options for the level of council tax and agree a recommendation for Council;
- j) Agree the medium term financial strategies for revenue and capital as set out in Appendices H and I.

1.2.2 It is recommended that the Cabinet agree to recommend to Council the appropriate matters for decision to set a balanced budget for 2015/16 and the necessary level of council tax in accordance with the Local Government Finance Act 1992, the Localism Act 2011 and the decisions made under 1.2.1 of these recommendations.

1.3 Reasons for Recommendation

1.3.1 This report brings together the revenue and capital budgets for 2015/16 and provides the Cabinet with the most up to date information on expected resources. The objective of the report is to provide the Cabinet with the information necessary to recommend to Council a balanced budget and a level of council tax.

1.3.2 On two previous occasions this year the Cabinet has considered the developing medium term financial strategy for 2015/16 onwards. On the first occasion a strategic revenue projection and a council tax level was set for the purposes of planning and consultation with the public and overview and scrutiny committee.

1.3.3 In addition the Cabinet has considered two quarterly budget monitoring reports for the current financial year. These reports

have reviewed revenue, capital and other balance sheet items and reported on any major variances or other issues. The reports identified areas where income is above budget and where expenditure levels are above budget. The Cabinet has made decisions in relation to those reports and resources have been reallocated to areas of budget pressure in line with those decisions.

1.4 Current Year 2014/15

1.4.1 One major area where expenditure is in excess of budget, Housing Temporary Accommodation, has been reported for the last three years and a temporary resolution has been found each year. This year the purchase and use of Aylesbury House has resolved part of the pressure on this budget. At the December 2014 meeting the Cabinet agreed an allocation of £160,000 into this budget to permanently resolve the remaining budget pressure.

1.4.2 The third quarterly budget monitoring report elsewhere on this agenda reports a growing level of employee underspend after an allowance is made for temporary staff and consultants. In addition income from both parking and planning are above target. The expected outturn for 2014/15 is a positive variance or underspend of £587,682.

1.5 The Strategic Plan and Other Strategies

1.5.1 During this year there has been a fundamental review of the strategic plan. The current plan is for the period to 31st March 2015. A new strategic plan has been developed for the period 2015/16 to 2019/20 and is reported elsewhere on this agenda. Alongside this work the medium term financial strategy for 2015/16 to 2019/20 has been developed to maximise the links between resources available and priorities of the council. Later in this report changes are being proposed to the budget book that reflects the closer developed links between the medium term financial strategy and the strategic plan.

1.5.2 The medium term financial strategy also incorporates consideration of the following:

- a) The workforce strategy – provision is included in the budget for expected growth and savings in employee costs.
- b) The asset management strategy – provision has been made from both capital and revenue resources for the repair and maintenance of assets. In addition there are resources within the capital programme for the acquisition of additional

commercial property.

- c) The ICT strategy – ICT is provided to the council by a shared service in partnership with Swale and Tunbridge Wells Borough Councils. The ICT strategy is therefore a three way strategy. The medium term financial strategy incorporates contributions to improvements that enhance the partnership and resources for the needs of this council.
- d) The Local Plan, (especially the links to the infrastructure delivery plan) – delivery of sustainable growth requires resources to improve all forms of infrastructure. While the infrastructure delivery plan remains in draft the council has made decisions regarding the use of new homes bonus and the future development of a community infrastructure levy that will enable infrastructure work to commence where plans require. An estimate of future resources available is set out in the capital programme later in this report.
- e) Risk register – the funding needs of actions plans developed for mitigation of identified risks are, where appropriate, incorporated into the budget strategy.
- f) Treasury Management – the 2015/16 strategy is reported elsewhere on this agenda. Recent debate has set out the difficulty with improving investment income in the current market and the strategy continues to place security above return.
- g) Commercialisation Strategy – the financial plan set out in the strategy is reflected in the medium term financial strategy in terms of both revenue benefits and capital implementation costs.
- h) Housing Strategy & Homeless Strategy – in recognition of the pressure on the temporary accommodation budget the Cabinet has approved additional permanent resources from 2015/16.

1.6 Consultations

1.6.1 Consultation with the public

1.6.2 The consultation with the public was carried out between October 2014 and December 2014. The consultation was available on the Council's website over this period and social media was utilised to raise awareness. Under the successful banner of "My Council - What matters to me", which has been used for budget

consultations over the last three years, Cabinet Members and officers met with local residents in both rural and town locations across the borough to discuss the budget and consider the priorities set out in the strategic plan.

- 1.6.3 The key feedback from those meetings is that residents place most importance on two of the eight priorities: "providing a clean and safe environment"; and "securing improvements to the transport infrastructure of our borough". Later in this report the budget will identify links to the strategic plan priorities. The two high priority issues for residents also retain the highest levels of funding reflecting their importance to the Council. A clean and safe environment receives the highest allocation of revenue funding and transport infrastructure will benefit from the capital funding being set aside for infrastructure to support the local plan.
- 1.6.4 Consultation with Strategic Leadership & Corporate Services Overview and Scrutiny Committee
- 1.6.5 The Strategic Leadership and Corporate Services Overview and Scrutiny Committee followed the development of the medium term financial strategy and the budget for 2015/16 through its budget working group. This group met with officers and members on several occasions during the year and reported back to the committee on its views. This enabled detailed consideration of the factors used in the developing budget.
- 1.6.6 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 proposed medium term financial strategy are achievable.
- 1.6.7 The group has also considered a number of other aspects of the medium term financial strategy:
- a) the proposed fees and charges increases;
 - b) the link between budgetary provision and the priorities set out in the draft strategic plan; and
 - c) the savings and efficiencies set out in this report;
- 1.6.8 The constitution requires the Cabinet to formally consult with Overview and Scrutiny and this was achieved by formal consultation at the meeting of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee on 6th January 2015. The Cabinet Member for Corporate Services, the

Head of Finance and Resources and the Chief Executive attended the meeting to answer questions on the budget strategy.

- 1.6.9 The committee made recommendations to Cabinet in relation to the medium term financial strategy and these are as follows:
- That the Committee be noted as in active support of Officers in finding options that mitigate the financial risk to the Council while achieving strategic objectives, and request an update from the Head of Housing and Community Services on this issue.
 - That Officers be requested to develop member development sessions in strategic risk to be incorporated into new member inductions commencing from elections in May 2015, to be rolled out to all members, and refined as the constitution develops.
- 1.6.10 The SCRAIP will be completed by the Cabinet Member for Corporate Services following this meeting.
- 1.6.11 Consultation with Audit Committee
- 1.6.12 The Audit Committee considered the budget strategy at its meeting on 26 January 2015. The committee's remit is with reference to risk management and it considered the operational risk assessment of the budget that is produced by the finance team as part of its service planning work each year. In the main, the view of the Committee was that the risk assessment identified the appropriate risks and the general work of the Council in monitoring the budget and the specific mitigation measures proposed were satisfactory.
- 1.6.13 In one area the Committee agreed to pass a reference on to the Cabinet. This is in relation to the level of balances and the future planned activity of the Council. The Committee felt that the work completed on the medium term financial strategy did not suitably bring together all of the issues so that the maximum financial exposure identified for all activities could be seen in relation to the available resources that would be utilised if plans were to fail.
- 1.6.14 While it is true that the Cabinet has not reviewed the worst case outcomes since September 2014 the purpose of the strategic revenue projection is to bring together the consequences of all the Council's plans and objectives at a level that Cabinet considers appropriate. In September 2014 the Cabinet considered three options for the strategic revenue projection this included best outcome, a worst outcome and a most likely outcome option. The

Cabinet selected a modified most likely outcome for planning purposes and again modified it in December 2014 in light of more accurate information.

1.6.15 Officers have reviewed the current strategic revenue projection and the third quarterly monitoring report for 2014/15 and identified the following projects as potentially significant exposure if the planning assumptions are incorrect:

- a) Commercial activity - £200,000 per annum income
- b) Temporary Accommodation – current overspend £354,664 should be resourced in 2015/16
- c) Introduction of Universal Credit – partial loss of Benefit Administration Grant £150,000
- d) Business Rates – Growth not achieved £1,167,467

1.6.16 These issues are mitigated in the current risk management plans as follows:

- a) Commercial activity will be supported by up to £164,000 of rental income from Phoenix Park for 2015/16. However the commercial activity must still provide the planned income of £1,000,000 within the five years of the strategy.
- b) Temporary Accommodation is now supported by Aylesbury House and two other premises providing a further eight units. In addition Cabinet has provided net additional budgets of £160,000 on a permanent basis from 2015/16.
- c) Universal credit will commence this year but the full implementation will take some years. The planned loss of grant is greater than grant losses in prior years and within the strategy period the full amount is lost.
- d) Business Rates growth is predicted to be significant but the value is well within the expected parameters. The proposal is for the resources to be held as a reserve until central government confirmation of the surplus during 2016/17 when proposals for its use can be confirmed.
- e) In addition to the direct mitigations of the risks the Council retains a specific balance of £500,000 as a resource set aside against the risk of commercial failure of one or more commercial projects.

1.6.17 Members should note that the intention of the risk management statement provided to Audit Committee and set out at **Appendix A** is to ensure that a suitable level of cover exists for such risks and that actions will be taken to monitor and react to signs of such events occurring.

1.7 The Strategic Revenue Projection

- 1.7.1 The Cabinet considered and agreed a strategic revenue projection at its meeting in September 2014 and has considered updates at its meeting in December 2014. The current strategic revenue projection is attached as **Appendix B** and includes amendments that have arisen since the December report.
- 1.7.2 Set out in Sections 1.8 to 1.14 below is the latest information about the key elements of the updated projection.

1.8 Provisional Finance Settlement

- 1.8.1 The provisional finance settlement was announced on 18 December 2014 on the day after the Cabinet considered a report on the draft budget for consultation with overview and scrutiny. The Department for Communities and Local Government allow a period of consultation until 15 January 2015. In February each year the final settlement figures are then announced and at that time they provide an indicative value for the following year.
- 1.8.2 In February 2014 the government provided indicative figures for 2015/16 and on 18th December 2014 they provided provisional figures based on current data and the outcome of the autumn statement. There has been a reduction in the total value. The national data provided on the two occasions is as follows:

2015/16 Settlement National Figures	As at February 2014	As at December 2014	£ Difference	% Difference
Revenue Support Grant	£9,233,280,899	£9,435,365,359	£199,084,460	2.16
Business Rates Baseline	£11,417,533,227	£11,323,173,448	-£94,359,779	-0.83
	£20,650,814,126	£20,758,538,807	£104,724,681	0.50

- 1.8.3 Nationally a number of changes occurred between the indicative figures of February 2014 and the Provisional figures of December 2014. A large part of the growth in revenue support grant, £145,200,000, is the provision of council tax freeze grant to those authorities that did freeze their council tax. The reduction in business rates relates to the 2% cap placed on increases in the autumn statement. The indicative figures assumed an increase in RPI of 2.76% which is not now available.
- 1.8.4 The report considered by the Cabinet in December 2014 used the indicative finance settlement figures provided to Maidstone by the DCLG in January 2014. The provisional figures announced on 18th December 2014 are lower than the indicative figures by £8,629 as set out in the table below. This is not a significant figure but does require additional savings to be found.

2015/16 Settlement Maidstone Figures	As at February	As at December	£ Difference	% Difference
---	-----------------------	-----------------------	---------------------	---------------------

	2014	2014		
Revenue Support Grant	£2,250,663	£2,266,690	£16,027	0.71
Business Rates Baseline	£2,983,341	£2,958,685	-£24,656	-0.83
	£5,234,004	£5,225,375	£-8,629	-0.16

1.8.5 Maidstone has not claimed council tax freeze grant in 2014/15 and did not receive the grant. The Council did however benefit from some minor changes to rural funding and the New Homes Bonus top slice refund. In terms of the business rates baseline the Council has seen a reduction due to the use of a 2% cap rather than the RPI assumed in the indicative figures.

1.9 Parish Funding

1.9.1 The Cabinet considered the amount and distribution of the local council tax support grant that the Council has agreed to passport to parish councils. The grant is distributed to parishes proportionate to the level of council tax lost due to council tax support grant.

1.9.2 Attached at **Appendix C** is a table of values that the Cabinet agreed at its December 2014 meeting could be provisionally reported to parish councils to assist in their budget and precept setting.

1.9.3 The calculation of the overall amount of grant to distribute is based upon the change in the Council's resources from the finance settlement each year. When Cabinet considered the distribution of the grant to Parishes at its December 2014 meeting the finance settlement figures were not available and indicative figures supplied by the government in February 2014 were used. Based on this formula the overall grant was reduced from the 2014/15 value of £96,802 by 15.27% to £82,024.

1.9.4 The finance settlement was announced the day after the December 2014 Cabinet meeting and the actual resources are £8,629 less than the indicative figures suggest. This means that the overall reduction in funding from 2014/15 into 2015/16 is 15.4% not 15.27%.

1.9.5 A similar but larger change occurred in development of the 2014/15 budget strategy but the Cabinet in February 2014 made a decision not to amend the allocation to parish councils and it would be appropriate to make a similar recommendation to Council this year and the council will absorb the difference.

1.10 Business Rates Pool and NNDR1 Estimate

1.10.1 The business rates estimate for 2015/16 is based on the recently calculated NNDR1 return provided to the Department for Communities & Local Government on 31st January 2015. The return predicts growth above the baseline business rates level set out in the finance settlement. The table below sets out the distribution of the business rates calculated for the NNDR1 return and compares this to the assumed values from the government's finance settlement announced on 18th December 2014.

Authority - Share	Provisional Finance Settlement	NNDR1 Return	Shares of Estimated Growth
Business Rates Total	56,124,896	58,525,075	2,400,179
Central Government 50%	28,062,448	29,262,537	1,200,089
Kent County Council 9%	5,051,241	5,267,257	216,016
Kent & Medway Fire & Rescue 1%	561,249	585,251	24,002
Maidstone Borough Council 40%	22,449,958	23,410,030	960,072
Tariff due to Government	-19,491,273	-19,491,273	
Maidstone – baseline need	-2,958,685	-2,958,685	
Maidstone - estimated growth	0	960,072	

1.10.2 The significant difference occurs due to three factors:

- a) The provisional finance settlement figures are the product of inflationary increases in the original baseline figures set at the commencement of the system on 1 April 2013. The figures do not reflect growth or changes in exemptions and allowances.
- b) There are a number of allowances that have been introduced by central government such as retail relief and the extension of the 100% small business rates relief and the effect of these were unknown in 2013/14 and were built into the system at a value that allowed a high level of take up which has not materialised yet.
- c) In the initial year of the system, 2013/14, the Council was required to set aside a significant provision against the cost of backdated and current appeals by businesses against their rateable value assessments. This provision will only require adjustment in 2014/15 and 2015/16.

1.10.3 The table at 1.10.1 shows that the Council technically retains 40% of the funds but there is a tariff payable to central government. The tariff is set as part of the finance settlement in each year and the Council must pay a tariff of £19,491,273 from its share in 2015/16. The balance equates to the business rates baseline given in the finance settlement and any growth attributable to the Council.

- 1.10.4 The total growth is in line with the predictions made by the Council at the time that the Council joined the Kent Business Rates Pool for 2015/16. The current prediction for this Council's share of growth directly from business rates collected is £960,072 as set out in the table at 1.10.1.
- 1.10.5 In addition, some of the special exemptions granted by central government that are mentioned in 1.10.2 b) are reimbursed to the Council through section 31 grant outside of the business rates system. These grants must be included in the calculation of growth and therefore the levy on growth. The current estimate of these grants, based on the NNDR1 data is a total of £860,380. Adding this to the £960,072 growth estimated in 1.10.4 above gives a growth for levy purposes of £1,820,452.
- 1.10.6 In normal circumstances this growth would be subject to a 50% levy which is payable to central government to support the payment of safety net grant to local authorities who saw business rates decline in their area. Due to the fact that the Council is a member of the Kent Business Rates Pool the levy will not be due in full. The levy on members of the pool is 1.25% rather than 50%.
- 1.10.7 The pool agreement enables the Council to retain some growth and distribute the balance as follows:

Action / Beneficiary	Formula	£
MBC retains the first 50% of the growth	$1,820,452 * 50\%$	910,226
Central government receive the levy	$1,820,452 * 1.25\%$	22,756
the balance (887,470) is shared within the pool:		
Retained by MBC	$887,470 * 30\%$	266,241
Growth Fund contribution MBC / KCC	$887,470 * 30\%$	266,241
Retained by KCC	$887,470 * 30\%$	266,241
Held as a provision against pool losses	$887,470 * 10\%$	88,747
Total		1,820,452

- 1.10.8 The sum retained by the Council is estimated to be £1,176,467 and comprises rows 2 and 5 of the table above. Cabinet has already considered the use of the growth identified in this estimate and agreed that it should be utilised in two ways. The initial 50% share retained by the Council should create an earmarked reserve and, following the year end audit, the resources that are actually confirmed should be utilised in 2016/17. The funding retained from the pool must be utilised in accordance with the memorandum of understanding which suggests two purposes:
- To enhance financial resilience for each of the pool members; and

- To promote further economic growth within the district based pool area.

1.10.9 Cabinet have previously considered options to utilise the resources to achieve the second purpose by supporting the actions required in the economic development strategy with this resource.

1.10.10 In order to recognise the business rates growth within the budget for 2015/16 the estimated growth figure has been incorporated into the resources section of the strategic revenue projection at the value calculated from the NNDR1 return. The two objectives identified for the resources in paragraph 1.10.8 have also been shown in the strategic revenue projection at Appendix B.

1.11 New Homes Bonus

1.11.1 The Council has previously made the decision that New Homes Bonus should not be used as a temporary resource to provide a balanced revenue budget. With the exception of some small value revenue projects that were one-off in nature, resources gained from New Homes Bonus have been reserved for support to the capital programme. The Council's intention is to ensure that resources are available from New Homes Bonus and future Community Infrastructure Levy contributions to support the needs of the Infrastructure Delivery Plan. The funding is set out in the capital programme later in this report.

1.11.2 For the financial year 2015/16 the Council will receive a grant of £4,306,285 which is an increase of £565,874 over the 2014/15 payment. This represents payment for new homes in the period October 2013 to October 2014.

1.11.3 Payment of New Homes Bonus commenced in 2011/12 with the first payments representing housing growth in the year October 2009 to October 2010. Under the scheme the payment is compounded for six years and the current payment is an accumulation of the figures for the last five years as set out in the table below. Members should note that the financial values and property numbers do not directly match as an enhancement is paid for any units that are affordable housing and this varies year on year.

Year	£	Property Growth
2011/12	892,316	766
2012/13	903,336	720
2013/14	1,152,721	891
2014/15	792,038	606
2015/16	565,874	346

Totals	4,306,285	3,329
---------------	------------------	--------------

- 1.11.4 The Government has commenced a review of the scheme and recently published a report on winners and losers from new homes bonus. As the major part of the funding has been top-sliced from business rates the government has calculated the business rates without top-slice and compared this with the results of the current system. The initial review concludes that Shire District Councils are the greatest beneficiaries of the scheme. The negative impact falls in the main on County Councils and Metropolitan Borough Councils. By region, the South East has the greatest proportion of beneficiaries from the scheme. Across Kent, Maidstone is the greatest beneficiary but property growth in Maidstone is shown in the table above as in decline since 2013/14.
- 1.11.5 The review will not be complete until after the general election in May 2015 and it can be expected that the scheme will at least change to rectify some of the imbalance. Members should also note that the Labour Party has stated that they will cease the scheme if they form a government following the general election.
- 1.11.6 At this time it would be prudent to assume that funding will reduce but this is unlikely to happen through the deletion of the whole scheme in one year. The figures set out in the section of the report on the capital programme assume an annual reduction of 35% in the calculated value of New Homes Bonus each year from 2016/17 with no future years added after 2017/18.
- 1.12 Fees & Charges
- 1.12.1 At the December 2014 meeting, Cabinet considered a report on fees and charges and approved the proposed increases which provide £76,300 additional income. At that time Cabinet requested further details on the proposed increase in income from parking and details of the current trend on fees in development management.
- 1.12.2 The third quarterly monitoring report elsewhere on this agenda identifies both parking and development management as areas where fee income is in excess of the current target. The income above estimate at 31st December 2014 for parking was £42,821 and for development management £140,625. In both cases the income forms only part of the variance reported in the third quarterly monitoring report.
- 1.12.3 The parking service proposed a £21,300 increased budget for parking income in 2015/16 which was approved by Cabinet in December 2014. The increase relates to greater use of King Street

Car Park and not an overall increase in fees. This sum is approximately half of the increased income currently reported for 2014/15. The balance of the current year's increase relates to use of other car parks and due to the inconsistent nature of the demand for individual car parks the trend remains uncertain. The parking services manager has recommended a cautious approach at this time and a full review for the 2016/17 budget.

1.12.4 The Head of Planning and Development is working with the business improvement section to review the long term growth predictions and the expected levels of staffing required to ensure appropriate levels of service tied to the increased level of applications. Due to the changes to the Planning Administration Section and the work on the local plan it is essential that this issue is given full consideration and, as with the parking service, the options will be reported to members for inclusion in the 2016/17 budget.

1.13 Council Tax Levels

1.13.1 In 2013 the government announced arrangements for council tax freeze grant to be available for the two years 2014/15 and 2015/16. In both years the grant available is equivalent to 1% of the council tax. The grant conditions do allow for an enhancement that effectively disregards the local council tax support discount provided by the Council and therefore represent slightly more than 1% of net council tax receivable.

1.13.2 In 2014/15 the Council did not accept the grant and increased council tax by 1.99%. This was in line with the decisions of all major preceptors. In 2015/16 the major preceptors have all reported that their decision is to again increase council tax by 1.99%. The Cabinet's draft budget, which was used for all consultation, included the same level of increase for the Council.

1.13.3 The additional income that a 1.99% increase generates for Maidstone Borough Council alone is £262,081 and the 1% enhanced council tax freeze grant available is £144,169. The budget reported here is balanced against the level of resources available from a 1.99% increase and a decision to take the council tax freeze grant would require an immediate amendment to the budget of £117,912 to ensure it remains in balance.

1.13.4 The longer term impact of accepting the council tax freeze grant would be more severe. Resources would further reduce due to the decline of revenue support grant, future council tax increases, and future tax base increases. These are explained below:

- a) The council tax freeze grant, once awarded, is rolled up into the Council's finance settlement becoming an integral part of the revenue support grant. The Government has previously made clear that the revenue support grant has a finite life span. The Council's current strategy assumes revenue support grant will not be received by this Council after 2018/19. Any consideration of the benefit of the council tax freeze grant would have to incorporate the decline of the grant over that period of time.
- b) The Council's current strategy assumes compounded increases in council tax equivalent to 1.99% per annum for the five years of the strategy. If the council tax is not increased for one year this will mean a permanent reduction in the level of income receivable. This is because the council tax referendum limit is annual and any increase not taken cannot be added in a later year. It is permanently foregone.
- c) All growth in the tax base would only provide resources at the lower level of council tax charge.

1.13.5 The table below sets out the elements of council tax revenue that would be foregone. This represents the total amount of cash that the Council would not receive in the period of the strategy if it chose to accept the available council tax freeze grant in 2015/16. The columns relate to the three issues set out in paragraph 1.13.4 above:

Paragraph:	a.	b.	c.	
Year	Grant Received £	Income foregone on tax charge £	Income foregone on tax base £	Total £
2015/16	-144,169	196,559	65,523	117,913
2016/17	-93,039	202,700	65,846	175,507
2017/18	-58,634	208,898	66,170	216,434
2018/19	-26,710	215,733	66,493	255,516
2019/20	0	222,610	66,840	289,450
Total after 5 Years	-322,552	1,046,500	330,872	1,054,820

1.13.6 The table shows that income foregone will rise over the period of the MTFs and the net revenue foregone over the period would be £1,054,820. The total column of the table shows that an immediate budget reduction of £117,913 would be required, rising to £289,450 by the year 2019/20.

1.13.7 The strategic revenue projection set out at Appendix B continues to assume a 1.99% increase in the council tax charge for 2015/16.

1.14 Savings proposals

1.14.1 Based upon the considerations set out in this section the Council will need to identify £3,141,000 over the period of the medium term financial strategy. In 2015/16 the requirement for savings is £652,000.

1.14.2 Set out in **Appendix D** are the savings proposed by officers and Cabinet Members for 2015/16 and these total the required £652,000. The proposals therefore produce a balanced budget. These proposals have been reported to Cabinet previously and formed part of the consultation with Overview and Scrutiny. No further changes for 2015/16 are proposed.

1.14.3 In future years, 2016/17 to 2019/20, the medium term financial strategy requires an additional £2,489,000 in savings and efficiencies to be achieved to ensure a balanced budget and continued future resilience of the Council.

1.15 Resulting Revenue Estimates

1.15.1 Attached at **Appendix E** is a summary of the revenue budget for 2015/16. The summary shows the Original Estimate 2014/15 as approved by Council in March 2014; the Revised Estimate 2014/15 calculated as part of the budget development work completed this year; and the Estimate for 2015/16 based upon the details set out in the section on the strategic revenue projection.

1.15.2 The Cabinet Member for Corporate Services has requested that the budget be presented to match the structure of the strategic priorities set out in the Strategic Plan considered elsewhere on this agenda. This work has been completed and the summary set out in Appendix E is presented by priority rather than by Cabinet Member. For completeness a second summary is included in Appendix E that is presented by Cabinet Member Portfolio as in previous years.

Revised Estimate 2014/15

1.15.3 The revised estimate 2014/15 shown in Appendix E totals £21,087,450. This figure is net of all income with the exception of the use of balances, the finance settlement and the council tax requirement. This figure, compared to the original estimate approved by Council in February 2014 shows an increase of

£2,010,700. The main variance is the value of the carry forward budgets approved by Cabinet in May 2014.

Original Estimate 2015/16

- 1.15.4 The estimate 2015/16 shown in Appendix E totals £19,029,560. This incorporates an allowance for slippage. The figure is net of all income with the exception of the use of balances, the finance settlement and the council tax requirement. This figure excludes the value of all precepts but includes the government grant passported to parishes to compensate for the local council tax support scheme.
- 1.16 Capital Estimates
- 1.16.1 The Capital Programme was reported to Cabinet in December 2014 and considered by Overview and Scrutiny in January 2015. The programme covers the same period as the strategic revenue projection, 2015/16 to 2019/20.
- 1.16.2 Since the programme was considered by Cabinet in December a number of service requests have been received for minor amendments to the programme. A revised programme and revised funding is set out in **Appendix F**. The revisions since December 2014 are as detailed below:
- 1.16.3 Play Area Improvements - The programme that was considered and approved at Cabinet in December 2014 amended the profile of the play area improvement budget to deliver the proposed project over a five year period. After further consideration by officers and the Cabinet Member the profile has been amended to a three year period from 2015/16.
- 1.16.4 Commercial Projects - The funding that was set out in the capital programme considered by the Cabinet in December 2014 included resources for commercial acquisitions and commercial projects. At this time the sums set aside in the programme are based on early projections of the cost of known schemes that will be considered by Cabinet in the near future. While there is no proposal to amend the figures at this time Members should view the current sum of £9,720,320 as "likely to change" as the details and cost of individual schemes become more firm or new schemes are proposed for later years of the programme.
- 1.16.5 Flood Defences - Following a series of discussions with organisations such as the Environment Agency, Kent County Council, neighbouring Borough Councils and affected Parish Councils further consideration has been given to the need to

contribute to the future cost of improvements in flood defences. The potential contribution is linked to the government funding of £17,000,000 that has been identified for support within Kent. The provisional funding for this scheme has been set aside from the general resources available to infrastructure delivery at a proposed level of £50,000 per annum.

- 1.16.6 Capital Funding - In addition to the scheme changes detailed above, officers reported verbally to members, at the Cabinet meeting in December 2014, that the New Homes Bonus payment for 2015/16 had been announced by central government. The figure was close to the value estimated in the developing budget but, due to the risk of changes to the new homes bonus system, the Council's previous capital funding estimates had been reduced by 35% of the calculated total. At this time the government is carrying out a review of the outcomes of the new homes bonus system but has not reported on the possible future options. This means that the announcement for 2015/16 was for the full amount of New Homes Bonus without amendment. The figure for the Council, as set out in section 1.11.3 is £4,306,285.
- 1.16.7 While considering the revenue budget strategy at its meeting in December 2014 Cabinet agreed to provide permanent additional funding to support temporary accommodation costs within the homelessness service. In order to achieve this budget was redirected from the planning policy base budgets. In place of the base budget Cabinet approved the use of £480,000 of New Homes Bonus from the 2015/16 receipt for a three year period. This leaves a balance of £3,826,280 funding for the capital programme. This is an increase of £1,071,880 from the figures used in the December 2014 report
- 1.16.8 Capital Receipts - The medium term financial strategy assumes low levels of sales of assets that will generate capital receipts and the capital funding set out in Appendix F assumes no receipts for 2015/16 onwards. In the current year a number of small windfall receipts have occurred and the Council has recently received an additional payment from Golding Homes under the stock transfer agreement for sold dwellings increasing the balance of usable receipts by £106,350 since the figures produced for the Cabinet report in December 2014.
- 1.16.9 Developer Contributions - Recent progress on the local plan and the related work on the development of the community infrastructure levy has enabled officers to produce an updated profile for receipt of contributions and this has reduced the level of receipt estimated to be available for capital funding during the period of the strategy. This is a reduction of £2,639,860 from the

figures used in the December 2014 report. However the overall value of funding from developer contributions over the period of the local plan will not vary.

1.16.10 The overall movement in funding is a net decrease of £1,461,630 over the five years of the programme. Combined with the proposed funding for flood defence works the remaining funding that is unallocated but will contribute to the infrastructure delivery plan works is £12,081,610.

1.17 Balances/Earmarked Reserves

1.17.1 Attached at **Appendix G** is a statement of general fund balances and details of the earmarked reserves that have been set up following the external auditors report on the Council's 2013/14 Audit.

1.17.2 The earmarked reserves incorporate a capital reserve that includes all of the retained New Homes Bonus and other revenue support to the capital programme available from previous years. In addition the earmarked reserve for the local plan contains the £480,000 set aside by Cabinet to replace the budget funding that has been transferred to the housing service.

1.17.3 In section 1.10 of this report the estimated level of resources available from business rates growth is identified. The report recommends that this resource, at this time an early estimate for the coming year, should be identified in the budget but set aside as an earmarked reserve for use in 2016/17 once the actual value of the growth is confirmed by the government.

1.17.4 While funding from these earmarked reserves may be required in 2015/16, at this time only one scheme to utilise general fund balances exists for 2015/16. As part of a three year approval to support increases in pension backfunding Cabinet agreed to contribute £50,000 per annum from balances for the three years of the current fund valuation and 2015/16 will be the second year of the arrangement.

1.17.5 General fund balances are estimated to be £4,470,000 by 31 March 2016. In considering the level of reserves that should be maintained Cabinet should make two decisions:

- a. The first is an absolute minimum below which the Cabinet cannot approve the use of balances without agreement by the Council. Since 2009 this has been held stable at £2,000,000 despite the net revenue expenditure level decreasing from £22,295,330 to £19,008,000. It is recommended that Cabinet

propose to Council that the minimum level of balances be maintained at £2,000,000.

- b. The second is an operational minimum, set for daily use of balances by Cabinet, for Cabinet. In the past this has been set £300,000 above the Council set minimum. This would be £2,300,000 and it is recommended that Cabinet approve the principle that the daily use level of balances should be £300,000 above the Council set minimum.

1.18 Medium Term Financial Strategy

- 1.18.1 The Council publishes two separate financial strategies. One for the revenue plan and one for the capital plan.
- 1.18.2 Attached as **Appendix H** is the Revenue Medium Term Financial Strategy 2015/16 Onwards and at **Appendix I** is the Capital Medium Term Financial Strategy 2015/16 Onwards. The strategies are focused on the five year period of the Council's planning cycle. In some local authorities plans of ten years and plans of three years are often seen. It is considered that a three year plan is too short to meet the requirements of the Council's strategic planning environment and that ten years is too long a period for a reasonable level of assessment about the future to be made.
- 1.18.3 The financial projection that complements the Revenue Medium Term Financial Strategy is the strategic revenue projection given at Appendix B. The financial projection considers the targeted need for growth and savings over the period of the Revenue Medium Term Financial Strategy and incorporates a number of assumptions about inflation and changes in local and national initiatives.
- 1.18.4 The financial projection that compliments the Capital Medium Term Financial Strategy is the capital programme given at Appendix F
- 1.18.5 Both strategies may require amendment following Cabinet's consideration of this report and following consideration by Council on 25 February 2015. The final versions will be published as part of the budget documents on the Council's website following the Council meeting.

1.19 Future Actions (Council Meeting)

- 1.19.1 As Members will be aware, it is a statutory requirement of this Authority to resolve the level of Council Tax for the area. To achieve this objective the recommendations detailed in this report need to be addressed. In addition the precepts of Kent County Council, the Police Authority, the Fire Authority and all parish

councils are required. These will all be incorporated into a resolution to the Council meeting on 25 February 2015.

- 1.19.2 It is the intention of officers to collate the decisions from this meeting and incorporate them into the necessary resolutions required by the Localism Act 2011 in order to achieve the above in time for the Council meeting.
- 1.19.3 In addition it is necessary for the section 151 Chief Financial Officer to give her opinion to Council, when setting the above requirements, that the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise. Based upon the process undertaken this year, and the information contained within this report, it is not anticipated that this opinion will include any adverse comments.
- 1.20 Alternative Action and why not Recommended
 - 1.20.1 The alternatives for each recommendation are included in the report for consideration with one exception that is detailed below.
 - 1.20.2 The Cabinet could recommend to the Council the setting of a council tax charge that is greater than that used as a planning assumption in the SRP. The Department for Communities and Local Government announced the level of tax increase that would trigger a referendum at the same time as it announced the provisional finance settlement and the limit is 2%. Any increase above this limit would require the Council to hold a referendum which would incur significant additional costs for the referendum and, if the response was not in favour of the increase, the resetting of the budget and rebilling all tax payers.
- 1.21 Impact on Corporate Objectives
 - 1.21.1 The capital and revenue budget developed from this strategy provide resources for the achievement of the Council's priorities. The MTFs has been developed in conjunction with the strategic plan and the budget summary set out at Appendix E is reported by strategic priority in line with the wishes of the Cabinet Member for Corporate Services.
- 1.22 Risk Management
 - 1.22.1 The development of the medium term financial strategy and the budget for 2015/16 supports the mitigation of the strategic risk of not having the resources available to achieve the Council's priorities. The robust process followed, along with the Council's

policy to deliver a balanced budget ensure that expenditure estimates appropriately support the delivery of council services.

- 1.22.2 The policy on balances helps to mitigate the risk of budget pressures arising from unbudgeted costs from the financial consequences of unforeseen emergencies.
- 1.22.3 The key risks at an operational level are identified as part of the process of developing the annual budget. These risks were reported to the Audit Committee in January 2015 and their views are set out in this report at section 1.6. The risks identified are set out in Appendix A.

1.23 Other Implications

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

- 1.23.1 Financial implications – These are dealt with comprehensively in the report.
- 1.23.2 Staffing Implications – The current budget provides the resources necessary to fund the proposed staffing levels and the proposed pay strategy.
- 1.23.3 Legal implications – The report and the recommendations it proposes will enable the Council to set a balanced budget and a council tax charge within the time limits and constraints of legislation. The most recent legislation specifying the decisions required and the responsibilities for making those decisions is the

Localism Act 2011 and the recommendations that Cabinet make to Council will be set out in the Council report as required by the legislation.

1.24 Relevant Documents

1.24.1 Appendices

- Appendix A – Risk Assessment
- Appendix B – Strategic Revenue Projection 2015/16 to 2019/20
- Appendix C – Parish Funding for Local Council Tax Support 2015/16
- Appendix D – Savings Proposals 2015/16
- Appendix E – Summary Revenue Budget 2015/16
- Appendix F – Capital Programme 2015/16 to 2019/20
- Appendix G – Estimate of General Fund Balances and Earmarked Reserves at 31 March 2016
- Appendix H – Revenue Medium Term Financial Strategy 2015/16 to 2019/20
- Appendix I – Capital Medium Term Financial Strategy 2015/16 to 2019/20

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input checked="checked" type="checkbox"/>	No	<input type="checkbox"/>
If yes, this is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			