

MAIDSTONE BOROUGH COUNCIL

REPORT OF THE CABINET HELD ON 11th FEBRUARY 2015

BUDGET STRATEGY 2015/16 ONWARDS

Issue for Decision

To consider the proposed Revenue and Capital Budgets for 2015/16, including service savings and growth, in accordance with the agreed budget strategy and in the context of the Medium Term Financial Strategy and the Medium Term Financial Projection.

To calculate and approve the Council Tax requirement for 2015/16.

Recommendations Made

1. That the future production of the budget book be linked to the Council's priorities detailed in the strategic plan and as set out in Appendix A (circulated separately).
2. That the revised revenue estimates for 2014/15 be agreed as set out in Appendix A.
3. That the minimum level of General Fund Balances be set at £2m for 2015/16.
4. That the proposed Council Tax of £235.71 at Band D for 2015/16 be agreed.
5. That the revenue estimates for 2015/16 incorporating the growth and savings items set out in Appendix A be agreed.
6. That the Statement of Earmarked Reserves and General Fund Balances as set out in Appendix A be agreed.
7. That the Capital Programme, as set out in Appendix A be agreed.
8. That the funding of the Capital Programme as set out in Appendix A be agreed.
9. That the Medium Term Financial Strategy as set out in Appendix A be agreed.
10. That the Strategic Revenue Projection, as set out in Appendix A as the basis for future financial planning be endorsed.
11. That it be noted that the Council's Council Tax base for the year 2015/16 has been calculated as 56974.3 in accordance with Regulation 3 of the

Local Authorities (Calculation of Council Tax Base) regulations 1992.

12. That it be noted that in accordance with Government guidance the yield from business rates has been calculated as £58,252,075.
13. That it be noted that the individual parish area tax bases set out in Appendix B are calculated in accordance with regulation 6 of the Regulations and are the amounts of the Council Tax Base for the year for dwellings in those parts of the Council's area to which a special item relates.
14. That the distribution of Local Council Tax Support funding to parish councils, as set out in Appendix C, be approved.
15. That the Council Tax requirement for the Council's own purposes for 2015/16 (excluding Parish precepts) is £13,429,412.
16. That the following amounts now be calculated by the Council for the year 2015/16 in accordance with Section 31A, 31B and 34-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011:-
 - (a) £80,506,490 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils.
 - (b) £65,683,120 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
 - (c) £14,823,370 being the amount by which the aggregate at 16(a) above exceeds the aggregate at 16(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31A(4) of the Act).
 - (d) £260.18 being the amount at 16(c) above (Item R), all divided by the figure stated at 11 above (Item T in the formula in section 31A(4) of the Act), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year (including parish precepts).
 - (e) £1,393,958 being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (as per the attached Appendix B).
 - (f) £235.71 being the amount at 16(d) above less the result

given by dividing the amount at 16(e) above by the tax base given in 11 above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

17. That it be noted that for the year 2015/16 Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Fire & Rescue Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

| <u>Valuation Bands</u> | <u>KCC</u> <u>£</u> | <u>KPCC</u> <u>£</u> | <u>KMFRA</u> <u>£</u> |
|-------------------------------|--------------------------------------|---------------------------------------|----------------------------------------|
| A | 726.66 | 98.10 | 47.10 |
| B | 847.77 | 114.45 | 54.95 |
| C | 968.88 | 130.80 | 62.80 |
| D | 1,089.99 | 147.15 | 70.65 |
| E | 1,332.21 | 179.85 | 86.35 |
| F | 1,574.43 | 212.55 | 102.05 |
| G | 1,816.65 | 245.25 | 117.75 |
| H | 2,179.98 | 294.30 | 141.30 |

18. That, having calculated the aggregate in each case of the amounts at 16 (d), and 17 above, the Council, in accordance with Section 30 (2) of the Local Government Finance Act 1992, hereby sets out in Appendix D, the amounts of Council Tax for the year 2015/16 for each of the categories of dwellings shown.

Reasons for Recommendation

This report sets out the considerations of Cabinet in relation to the budget for 2015/16 and the formal recommendation of Cabinet to set the budget and the Council Tax level as required by the Local Government Finance Act 1992 and the Localism Act 2011.

The Medium Term Financial Strategy has been developed along with the new Strategic Plan. As part of the work to connect the two strategies the budget set out at Appendix A has been amended from its previous format in two ways. Firstly the details are categorised by priority rather than Cabinet Member's portfolio and secondly the details has been simplified to improve legibility and usability. Members should view the budget as a first attempt at redesign and will be improved during the development of the 2016/17 budget.

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.

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.

Current Year 2014/15

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 its December 2014 meeting the Cabinet agreed an allocation of £160,000 into this budget to permanently resolve the remaining budget pressure.

The third quarterly budget monitoring report to Cabinet in February 2015 shows 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.

The Strategic Plan and Other Strategies

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 Council agenda for consideration. 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.

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.

Consultations

Consultation with the public

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.

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.

Consultation with Strategic Leadership & Corporate Services Overview and Scrutiny Committee

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.

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.

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;

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.

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.

Consultation with Audit Committee

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.

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.

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.

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

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.

Members should note that the intention of the risk management statement provided to Audit Committee 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.

The Strategic Revenue Projection

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 given within **Appendix A** and includes amendments that have arisen since the December report.

Set out below is the latest information about the key elements of the projection.

Provisional Finance Settlement

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.

In February 2014 the government provided indicative figures for 2015/16 and on 4th February 2015 they provided final 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 |

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.

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 did require additional savings to be found.

| 2015/16 Settlement Maidstone Figures | As at February 2014 | As at December 2014 | £ Difference | % Difference |
|-------------------------------------------------|------------------------------------|------------------------------------|-------------------------|-------------------------|
| 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 |

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.

Parish Funding

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.

Included in **Appendix A** 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.

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.

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

A similar but larger change occurred in development of the 2014/15 budget strategy but in approving the budget for the current year it made a decision not to amend the allocation to parish councils and it would be appropriate to make a similar decision this year.

Business Rates Pool and NNDR1 Estimate

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 | |

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 at this time.
- 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.

The table above 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.

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 below.

In addition, some of the special exemptions granted by central government that are mentioned earlier 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.

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%.

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 | | 887,470 |

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 in the budget at Appendix A it has been utilised in two ways. The initial 50% share retained by the Council creates an earmarked reserve and, following the year end audit, the resources that are actually confirmed would be utilised in 2016/17. The £266,241 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.

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.

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 above have also been shown in the strategic revenue projection in Appendix A.

New Homes Bonus

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.

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.

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 | 3329 |

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.

The review will not be complete until after the general election in May 2015 and it can be expected that the scheme will change to at least 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.

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.

Fees & Charges

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.

The third quarterly monitoring report considered by Cabinet identified 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.

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.

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 further considered in the development of the 2016/17 budget.

Council Tax Levels

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.

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.

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.

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.

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 |

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.

The Estimate 2015/16 set out in Appendix A assumes a 1.99% increase in the council tax change for 2015/16.

Savings proposals

Based upon the considerations set out in this report 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.

Set out in **Appendix A** 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.

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.

Resulting Revenue Estimates

Contained in **Appendix A** 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.

Revised Estimate 2014/15

The revised estimate 2014/15 shown in Appendix A totals £17,159,840. 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

The estimate 2015/16 shown in Appendix A totals £14,727,710. 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.

Capital Estimates

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 and is also set out in Appendix A.

The programme is presented, as is the revenue budget, by Council priority from the strategic plan. The programme is affordable for 2015/16 and is dependent upon levels of funding for future years.

Balances/Earmarked Reserves

Included in **Appendix A** 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.

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.

Earlier in 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.

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 made 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 Council approve 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 Cabinet approved the principle that the daily use level of balances should be £300,000 above the Council set minimum.

Medium Term Financial Strategy

The Council publishes two separate financial strategies. One for the revenue plan and one for the capital plan both are included in Appendix A.

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.

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.

The financial projection that compliments the Capital Medium Term Financial Strategy is the capital programme included in Appendix A.

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.

Alternative Action and why not Recommended

The alternatives for each recommendation are included in the report for consideration with one exception that is detailed below.

Council could consider the setting of a council tax charge that is greater than that used as a planning assumption. 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.

Background Papers

None