Policy and Resources Committee	29 July 2015
Is the final decision on the recommendations in this report to be made at this meeting?	**No**

Medium Term Financial Strategy 2016/17 Onwards

Final Decision-Maker	Council: 2 March 2016
Lead Director or Head of Service	Zena Cooke, Director of Regeneration and Communities
Lead Officer and Report Author	Paul Riley, Head of Finance & Resources
Classification	Non-exempt
Wards affected	All wards

This report makes the following recommendations to this committee:

1. That, for planning purposes, a council tax increase of 1.99% is agreed for the development of the medium term financial strategy;
2. That the officer recommended strategic revenue projection given at Appendix C is agreed for submission to all service committees for their consideration and response back to this committee on the factors outlined;
3. That the current capital programme be advanced by one year as set out at Appendix D and agreed for planning purposes.
4. That all service committees be requested to consider possible submission for the future capital programme;

This report relates to the following corporate priorities:

The medium term financial strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.

Timetable

Meeting:	***Date:***
Policy & Resources Committee	29 July 2015
All service committees	1 – 15 September 2015
Policy & Resources Committee	23 September 2015
Policy & Resources Committee	16 December 2015
All service committees	5 – 19 January 2016
Policy & Resources Committee	24 February 2016
Council	2 March 2016

Medium Term Financial Strategy 2016/17 Onwards

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

Purpose

1.1 This report allows the committee to consider the medium term financial strategy (MTFS) for 2016/17 onwards along with developments and emerging issues that will affect the revenue budget and capital programme for that period.

1.2 The report seeks the committee's views on a draft set of assumptions that will be used to set the MTFS for planning purposes. The draft assumptions for the MTFS are considered in the context of the strategic plan as currently published and may later be reviewed in light of any amendments to the strategic plan for 2016/17.

1.3 The draft assumptions confirmed by this meeting will be used to submit reports to each of the service committees individually for their consideration and to seek their proposals for balancing the budget. The results of these considerations will then be aggregated into a further single report to this committee. Following completion of that process the agreed strategy will be used for public consultation in the autumn.

1.4 The ultimate objective is to set a balanced budget and agree a level of council tax for 2016/17 at the Council meeting on 2 March 2016.

Executive Summary

1.5 The report considers the revenue and capital strategies for the development of a budget for 2016/17 onwards.

1.6 Firstly it looks at the factors influencing the revenue budget:

Factor	Paragraph
Resources:	
Revenue Support Grant	4.3
Retained business rates	4.9
Business rates growth	4.12
Council Tax	4.19
Fees & charges	4.28
Pressures:	
Employee costs	4.30
Single tier pensions	4.37
Contracts	4.42
Pension backfunding	4.45
Housing benefit administration	4.48
Economic development	4.51

1.7 From the analysis the report recommends one set of options for the development of a strategic level revenue budget for planning purposes.

1.8 From paragraph 4.58 onwards the report considers options for the capital programme, concluding that no changes should be made until responses have been received from service committees to the proposals agreed at this committee.

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2. INTRODUCTION AND BACKGROUND

2.1 The MTFS is actually two documents that make up a five year rolling strategy, which is reviewed and updated annually as an important element of the development of the budget. Ultimately it is approved by Council.

2.2 One document sets out the revenue spending plans of the council and availability of revenue resources. The other sets out the capital programme by considering its sustainability, affordability and prudence. Both state the criteria by which decisions in relation to the development of the annual budget are to be made. This report reviews the MTFS and considers options for the development of a five year strategic revenue projection and a five year capital programme.

2.3 The strategic revenue projection is a model used to concisely predict the effect of major local and national factors on the future revenue budget by identifying high level issues that will have an influence on the budget planning process and the objective of achieving a balanced revenue budget.

2.4 Since the approval of the current MTFS by Council on 25 February 2015 there has been an election and an emergency budget by the new government. It was predicted, when considering last year's MTFS and budget, that the general election would not mean immediate changes to the planned austerity measures impacting on local government for 2015/16. This was confirmed by the Chancellor of the Exchequer in his emergency budget speech on 8 July 2015.

2.5 Despite the lack of immediate impact on local government from the emergency budget, the future plans of the government in relation to its austerity programme have been strengthened. It can be expected that the Council will see additional pressure in 2016/17 and later years due to greater reductions in government funding than those predicted when the Council agreed the current MTFS. What is not clear is how any impacts will have an effect on the council's budget. This is because the revenue support grant, which is a major tool used by central government to adjust local government funding, is already predicted to end during this parliament.

2.6 This year is the second year of the Kent Business Rates Pool. The success of the pool in 2014/15 has meant that membership of the pool has grown. The original pool membership was two authorities: this council pooling with Kent County Council. For the current year this has grown to include Kent and Medway Fire and Rescue and nine of the eleven remaining districts. The two districts not currently in the pool are Sevenoaks District Council and

Dartford Borough Council. Current and past results of the pooling arrangement are dealt with later in this report.

2.7 The current capital programme is financed predominantly by the council's New Homes Bonus receipts. At this time the government has recommitted to the new homes bonus programme but is considering a full review of its success. The current levels of funding for the capital programme are already based upon a cautious prediction of future receipts to reflect the potential risks of the review.

2.8 Attached as **APPENDIX A** to this report is the summary revenue budget for 2015/16 which was agreed by Council on 25 February 2015. The Appendix shows the summary budget by priority as this demonstrates a clear link between the strategic plan and the resources available to deliver the council's priorities. The budget was developed, reported and agreed prior to the change to the current committee system and does not provide an analysis of the resources by committee. Detailed in the table below is the summary information set out by service committee.

Committee	**Net Budget 2015/16 £,000**
Policy & Resources	4,604
Communities, Housing & Environment	8,580
Heritage, Culture & Leisure	1,793
Strategic Planning, Sustainability & Transport	0
Use of Balances & Reserves	5,156
	20,133

Table 1: 2015/16 budget analysed by service committee

It should be noted that Strategic Planning, Sustainability & Transport generates sufficient locally derived income to fund the services delegated to it by the Council. In addition the use of balances and reserves reflects the expected call on reserves to finance the capital programme.

2.9 Appendix A also provides details of the revenue outturn for 2014/15. A detailed analysis is set out in a separate report elsewhere on this agenda. It can be noted that the under-spend at 31 March 2015 enabled the funding of £400,000 worth of specific projects as agreed by Cabinet in April 2015. In addition the resources that were received as grant for specific schemes, which had not been spent in year, have been carried over into 2015/16 leaving a small deficit on the year's budget which will need to be resourced from balances. Again the analysis given in Appendix A is by priority, the committee analysis is tabled below:

Committee	**Estimate £**	**Actual £**	**Variance £**
Policy & Resources	11,664,440	10,749,096	915,344
Communities, Housing & Environment	8,816,010	9,165,320	-349,310
Heritage, Culture & Leisure	590,710	682,171	-91,461
Strategic Planning, Sustainability & Transport	113,730	-228,634	342,364
Use of Balances & Reserves	-2,068,140	-1,229,060	-839,080
	19,116,750	**19,138,893**	**-22,143**

Table 2: 2014/15 outturn compared to budget, analysed by service committee.

2.10 As can be seen from table 2 the underspend is not consistently delivered by all committees with Policy & Resources and Strategic Planning, Sustainability & Transport committees reporting an under–spend and Communities, Housing & Environment and Heritage, Culture & Leisure committees both reporting an over-spend. This presents a further difficulty for these two committees as they will need to identify a way to bring their budget and actual expenditure into balance in ways that support the council's strategic objectives.

2.11 The major area of pressure for the Communities, Housing & Environment Committee is the homelessness temporary accommodation budget. For 2015/16 the Council agreed a net increase in the budget for this service of £160,000. Taken together with the full year effect of the two property acquisitions, now in use for homelessness, this may resolve the issue in the current year although the number of cases continues to increase. Careful monitoring will be essential to ensure that this is the case and that pressure on the budget is mitigated.

2.12 The major areas of pressure for the Heritage, Culture & Leisure Committee are the Museum service and the Parks & Open Spaces service. For the Museum, where there has been a continual and worsening over-spend for many years, officers have completed a zero based budgeting exercise which will be reported to the committee to assist with its deliberations on the most appropriate way forward. For the Parks and Open Spaces service the committee is currently considering chargeable activities in Mote Park that, if the business case is delivered, will support and enhance the service while also providing a contribution to the MTFS.

2.13 Attached at **APPENDIX B**, for information, are the current medium term financial strategies as agreed for revenue and capital expenditure. On the recommendation of the Corporate Services Overview and Scrutiny Committee in 2012/13 the medium term financial strategy was divided into two separate documents to give greater prominence to the capital strategy.

2.14 The detail given in this report and the timetable of meetings set out on the cover to this report will all contribute to the creation of a revised MTFS for 2016/17 onwards which will be considered by this committee later in the cycle of meetings.

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3. AVAILABLE OPTIONS

3.1 A number of factors that influence the annual budget and the MTFS are not yet known. Consideration could be given to waiting for the information before taking decisions on the issues raised in this report. A significant unknown factor at this time is the level of central government funding for 2016/17. This information will not be available until the annual finance settlement is announced in December 2015. This will be too late to commence budget planning and consultation. In order to achieve a balance budget, a satisfactory level of council tax and to understand the future financial risk facing the organisation it would be appropriate for the committee to take planning decisions at this time rather than await improved information.

3.2 For each element of the strategic revenue projection there are a number of options. Each element and its options are dealt with separately in section 4 of this report: 'Preferred Option and Reasons for Recommendation'. The result of the analysis gives the committee a range of possible outcomes from which a strategic revenue projection that reflects the committee's risk appetite can be agreed.

3.3 Due to the limited options for funding the capital programme the committee is recommended to increment the current programme by one year and make no further changes at this time.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 **APPENDIX C** to this report sets out three strategic revenue projections. These projections use the following levels of assumption:

a) **Adverse**: Lowest predictable levels of resources and highest budget pressures.
b) **Recommended**: Officer expected levels of resources and budget pressures.
c) **Favourable**: Highest predictable levels of resources and lowest budget pressures.

4.2 The elements of the strategic revenue projection are set out below and the options that create the three levels of assumption are set out for each.

STRATEGIC REVENUE PROJECTION AND REVENUE MTFS

Revenue support grant

4.3 On 4 February 2015 the Department for Communities and Local Government notified the council of the final figure for revenue support grant in 2015/16. In previous years the government has used this notification to provide local authorities with indicative figures for the following year's settlement. Despite the government recognising the need for local authorities to have some stability in terms of future funding levels, the information relating to 2016/17 was not provided this year.

4.4 The revenue support grant for 2015/16 is £2.267m and this is £1.007m less than the sum received in 2014/15.

4.5 The strategic revenue projection for 2015/16 was developed on the basis of an assumption that by 2019/20 the current revenue support grant paid to the Council would no longer be received. The option proposed was to reduce the grant in instalments on an annual basis until it reached zero in 2019/20.

4.6 The Chancellor of the Exchequer's speech introducing the emergency budget on 8 July 2015 detailed a more significant austerity plan than previously envisaged. The plan requires targeted levels of reduction identical to those experienced during the last parliament under the coalition government. At the same time he reported that the government has extended the date by which its plan would reach an annual surplus by one year. This reflects a response by the government to concerns, expressed by stakeholders, regarding the impact of the welfare reforms required. It is unlikely that funding for local government will gain from the amended timetable.

4.7 Current assumptions are that, when local government is notified of the draft finance settlement in December 2015, the figures could include additional reductions not assumed at the time of the 2015/16 settlement. The level to which those reductions will affect the strategic revenue projection can only be through the timing of the reduction as the strategy already assumes complete removal of revenue support grant by 2019/20.

4.8 For the adverse option model of the strategic revenue projection an assumption that the revenue support grant will disappear one year earlier than previously expected has been made. This is to reflect the possibility of the government taking direct action to further reduce funding to local authorities. Other models assume a continuance of current reductions through to 2019/20. The levels of revenue support grant already remaining is small and the gain to the government from increasing the pace of reduction is unlikely to have a significant impact on their planned outcome.

Retained business rates

4.9 The system of local retention of business rates came into effect in April 2013. Under this system local government retains 50% of all business rates collected, however this is on a national level and not at an individual local authority level. For this Council the total business rates collected is in excess of £58m meaning local retention could be as high as £29m. Due to the inclusion of an initial assessment of need into the 2013/14 settlement the locally retained element in many district councils is significantly lower than this, with the excess being paid as a tariff to central government. This is the case for this council and the locally retained element ia approximately 5%. For 2015/16 the figures are as follows:

Authority	**£,000**	**Share**
Kent County Council	5,267	= 9%
Kent and Medway Fire and Rescue	585	= 1%
Maidstone Borough Council	2,959	= 40% adjusted for need to 5%
	8,811	
Total business rates due	58,525	
Percentage retained “locally”	15%	

Table 4: Shares of retained business rates using 2015/16 NNDR1 return data

It should be noted that police authorities receive all of their funding nationally.

4.10 As part of the annual assessment of locally retained business rates the Council’s needs baseline grows by the uplift in the business rates multiplier. In recent years the government has restricted the amount of the increase that is charged to businesses to 2% of the previous year’s charge rather than the statutory increase equivalent to the increase in the retail price index.

4.11 The system of locally retained business rates was developed by this government as a response to the complexity of the formula grant calculation used prior to its introduction. It is unlikely that the government would make major changes to the system at this time as an imminent review is planned (see paragraph 4.16a). All three models assume an annual increase of 2% in the needs baseline retained business rates.

Business rates growth and the Kent Business Rates Pool

4.12 Under the system of local business rates retention the Council can enter into a pooling arrangement with other local authorities. This is beneficial where one or more of the local authorities receive a top-up from the government's redistribution mechanism. This is the case for both Kent County Council and Kent and Medway Fire and Rescue.

4.13 As a member of the pool the council has the ability to retain more of the income from growth in business rates than it otherwise would because it is sheltered by the top-up received by Kent County Council. Under the specific agreement reached for 2014/15 the additional benefit was shared with Kent County Council. The shares and their value based on the growth in 2014/15 are set out below:

SHARE BY PURPOSE		**£**
Maidstone Borough Council's MTFS	30%	144,119
Kent County Council's MTFS	30%	144,119
Growth Fund	30%	144,119
Contingency	10%	48,040
	100%	**480,397**

Table 5: Shares of the Kent Business Rates pool 2014/15

4.14 Both authorities received 30% of the gain for personal use within their MTFS. The third 30% is held in a fund for business growth and use of the fund is by mutual agreement. The final 10% is held against losses arising from the risks of entering the pool. The major risk is the fact that government support is not available to members of a pool and should business rates reduce for one member of the pool they would be able to call initially on the contingency before obtaining direct support from other members.

4.15 The 30% retained by this council and the 30% in the growth fund have been allocated, by agreement, to the delivery of the economic development strategy. The planned use of the 2014/15 resources in 2015/16 were considered by this committee in June 2015.

4.16 Business rates growth assumptions are set in the current strategic revenue projection at £1.2m based on the initial estimate for 2015/16. It is not proposed to amend the estimate at this time however a number of potential matters could occur that may affect the estimate. These are set out below:

a. Government reviews: The government is planning two actions during this term. Firstly a revaluation of business rates, the results of which could have an effect on the level of appeals for which the council must make provision and pay for if successful. Secondly a review of the business rates system which may lead to changes in the levels of retained income.

b. Appeals: The process of appeals is outside of the control and influence of the council however all appeals approved by the government's valuation office will result in a need to make a backdated refund to businesses.

c. Greater risk of financial loss: in 2014/15 this council was the only council contributing resources and the only council at risk of loss in relation to the pool. The 2015/16 pool includes 10 authorities that contribute and are at risk of loss.

   i. If the council sees significant business rates loss during the year there is a risk that it could not be financially supported by the pool this risk is the same as the council took in 2014/15.

   ii. If another authority saw significant business rates loss during the year the pool agreement will not allow the council to be worse off than if it were outside of the pool. The maximum risk to the council is therefore the growth retained because the council is a member of the pool. (i.e. the resources set out in the table 5 at 4.13)

4.17 While there is a risk of loss of this income the Council has in the past assumed that this level of funding will be taken to reserves and utilised the following year. This is the case with the use of 2014/15 retained growth from the business rates pool, which has been used in 2015/16 to aid achievement of the objectives of the economic development strategy. This means no spending decisions are taken in advance of receipt of the funds.

4.18 All three models are based upon the same level of retained growth as this has no direct impact on the MTFS or the strategic revenue projection. This lack of impact is due to the inbuilt delay in making spending decisions as explained in paragraph 4.17 above. There is therefore a low level of risk to the MTFS.

Council Tax Levels

4.19 Total Council Tax is a product of the tax base and the level of tax set by Council. The tax base is a value derived from the number of chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions. The tax base for 2015/16 was set at 56974.3.

Tax Base:

4.20 A current review of the tax base as at 1 July 2015 shows that there has been a 0.5% increase since the tax base for 2015/16 was originally set in October 2014.

4.21 The net increase in dwellings is 440 units but this has been impacted by increased single person discount and increased local council tax discount levels, creating the net 0.5% growth figure. Longer term risks relating to the provision of local council tax discount exists. Based upon the current knowledge of government's welfare reforms the benefit cap and increased levels of rent for some affordable housing tenants may mean that a higher level of council tax discount would need to be granted as this is calculated after all other benefits have been taken into account. The following assumption is possible:

a. <u>High level predictions of demand for local council tax discount</u>: This could increase the cost of the discount by 6%. This level of increase would reduce the tax base by approximately 378 units effectively negating all growth to date in the current year.

4.22 The level at which planning assumptions have been set in previous years is 0.5% and the actual movement to date suggests this remains a viable assumption for future years. However this represents an increase in the number of dwellings within the borough of 440 which is below the long term assumptions made in the draft local plan. Future options could include consideration of higher levels of growth in the tax base from the following assumptions:

a. <u>Full year effect of current data</u>: The increase identified in the tax base as at 1 July 2015 represents the increase over a period of 9 months this would be only 75% of a full year effect. If growth in dwellings and increased demand for discounts is consistent throughout the year then the tax base growth by October 2015 could be 0.7%.

b. <u>Medium term housing need</u>: The longer term need, evidenced in the draft local plan, suggests a higher level assumption would be possible. Prior to recent problems with the economy the movement in the tax base was nearer to 1% or 650 dwellings per annum. It is possible that the

Increase in charge:

4.23 The level of council tax increase for 2016/17 is a decision that will be made at Council on 2 March 2016 based on a recommendation made by this committee. At this time a decision on the increase in council tax is solely for planning purposes and to enable the necessary public consultation on the Council's budget and MTFS.

4.24 The current MTFS states that:

'T*he Council must consider the need to set a balanced budget that enables it to provide the services required by its customers. The significant risks facing the future financial stability of the Council have been considered along with the strategic revenue projection's assessment of the future reductions in resource levels that have been predicted to follow the next spending review. The strategy assumes an annual Council Tax increase of 1.99% in order to improve resource stability over the period.'*

4.25 In considering this issue the committee should recognise the need to set a level of council tax commensurate with the level of service provision and to avoid the use of short term decisions that risks the council's medium term liquidity and financial resilience. A recommended increase is an issue for a future meeting. At this time the committee should set an increase as a planning assumption. The increase approved for the previous year is a suitable level for a planning assumption.

4.26 For many years the council's ability to increase the level of council tax has been limited firstly by a cap and more recently by the need to hold a referendum for increases over a government set limit. The government limit has been set at 2% for the past few years. The council set an increase of 1.99% for the current year.

4.27 For planning purposes it is recommended that in all options the council tax be increased by 1.99% per annum from an increase in the charge and 0.5% per annum from tax base growth, this provides a 2.49% increase in council tax income.

Local income from fees and charges

4.28 The council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. This does not consider the needs of the MTFS with the exception of the suggestion that charges should be maximised within the policy.

4.29 For planning purposes it is recommended that in all options no increase in locally determined fees and charges be assumed until after initial consideration by the service committees of fees and charges for their services.

4.30 The council has approved a commercialisation strategy which has set a target for net income gained from new and enhanced activities of £1m over the five year period from 2015/16 to 2019/20.

4.31 In the current MTFS this target was incorporated into the strategic revenue projection. In a committee system, where the delivery of each proposal will be the responsibility of an individual service committee, this target has been removed from the strategic revenue projection but will form part of the objective of each service committee when considering the level of income it can achieve.

Budget Pressures

Employee costs

4.32 In the emergency budget the Chancellor of the Exchequer announced actions that will have an impact on the employee costs of the council. The two main issues impacting the council are:

a) Funding for a 1% annual increase in public sector pay over the period of the current parliament; and
b) An increase in the living wage to £9 per hour by 2020. This included an increase to £7.20 in 2016/17.

4.33 The current strategic revenue projection assumes annual employee costs of 1.5%. This incorporates incremental increases following the mid-year performance appraisals. Where increments are agreed these can be as high as 4% and are paid from 1 October each year. On average the effect on employee costs arising from the incremental increases is 0.5% as not every employee is due to receive or achieves an incremental increase at review.

4.34 The 1.5% assumption therefore covers potential incremental increases and allows the council to reflect the national proposal for public sector pay. The committee should note that local pay arrangements exist for staff and the council is not bound by the 1% increase specified in the emergency budget.

4.35 The increase in the living wage will not have an immediate impact of the council's employee costs as a living wage of £7.20 per hour by 2016/17 is covered by the current salary scale. Longer term the increase of £9 per hour is greater than an annual increase of 1% and will impact on the MTFS by 2017/18.

4.36 In addition to the national issues set out above there are additional local issues:

a) **Pay policy**: The Council has an agreed pay policy that defines a relationship between the highest point on each pay grade and median pay for the sector in the south east (excluding London). The Head of the Human Resources Shared Service is required to complete an analysis to ensure that pay at the top of each grade is a reasonable fit for the measures set out in the policy.

b) **Staffing shortages**: Due to the high demand for some professional staff in the current market a number of recent vacancies have failed to attract suitable candidates. In a small number of cases enhanced remuneration packages have been agreed to obtain suitable staff. It is likely that such enhancements will be required in the future.

4.37 Prior to completing the analysis required it is impossible to directly measure the implications of changes under the pay policy on future employee costs. A measure of likely cost can be taken from the last realignment of the salary scale following a pay policy review. On that occasion the adjustment increased employee costs by 3%. It is unlikely that adjustments will be required to all pay points on the scale and members may wish to consider

4.38 At the level of an individual employee vacancy the need for enhanced remuneration is evidenced by the results of the employment process. The policy requires evidence of an effective recruitment exercise that resulted in no suitable applicants to enable a manager to consider an enhancement to salary before attempting a further recruitment exercise. The current policy is to require the service to identify funding from within the service budget to pay such enhancements. A pressure that would affect the MTFS would only be recognised if there was a systemic need to consider such enhancements.

4.39 For the adverse option model of the strategic revenue projection an additional cost equivalent to 3% of pay has been included. That model therefore incorporates a total employee cost increase of 4.5% in 2016/17 only. This provides an immediate budget for a pay policy review that would need to incorporate changes to the living wage as required.

4.40 The recommended option model of the strategic revenue projection provides for an additional annual increase of 0.2% above that previously planned, which is an annual uplift of 1.7%. This allows for a model that will pay an increase to all staff while allowing a small sum to be made available for any pay policy realignment. This assumes a less than 1% pay award allowing an annual sum to progress any realignment that is required. If no realignment is necessary then 1.2% is available for the pay award. This option assumes that any pay enhancement costs would be met from current service budgets and incorporates funding for the living wage increases.

4.41 The favourable option model assume a 1.5% increase in employee costs on the basis that a greater increase is unaffordable and should only occur where real need is identified and local savings can generate resources. This would deliver an annual increase of less than 1% for most grades excluding the living wage.

Single tier pensions

4.42 From the commencement of the tax year 2016/17 the government is changing the state pension arrangement. As set out in previous budgets the intention is to pay a single tier pension to all contributors.

4.43 At present the council’s employees benefit from contributions to the local government pension scheme. Employees are therefore contracted out of some national insurance contributions.

4.44 Under the new arrangements this will not be the case and both employees and employers in the public sector will need to make increased national insurance contributions.

4.45 It is currently estimated that the council’s additional contribution would be £275,000. This is a calculated figure based on the current employee establishment and is therefore used in all three models of the strategic revenue projection.

Contractual commitments

4.46 The council has a number of contractual arrangements such as the waste collection arrangements and the building maintenance contract. These contracts all have specific arrangements for annual uplift linked to relevant indices such as the consumer price index.

4.47 Additional costs arising from these contractual increases are factored into the strategic revenue projection on an annual basis. The indices used as estimates reflect either the actual index for the previous increase or an index based on the guidance of the service manager concerned.

4.48 As these increases are based on past experience and professional expertise they are used in all three models of the strategic revenue projection.

Backfunded pensions

4.49 The financial year 2016/17 is the third and final year of the current triennial valuation of the pension fund. At the last triennial valuation the Council agreed that the additional backfunding contribution required by the valuation would be funded by an annual increase of £50,000 in the base budget. The remainder of the increase was taken from balances.

4.50 This decision meant that by the time of the next valuation, in 2017/18, a base budget of £1.475m would exist against a current charge of £1.558m. Given the expected future improvement in the economy by 2017/18 this sum was considered to be sufficient as a baseline for the next triennial review. The outcome of this assumption will not be certain until late in 2016 when the next triennial valuation will commence.

4.51 All three models assume the £50,000 planned increase for 2016/17 and therefore a contribution from balances in 2016/17. In addition the following assumptions have been made for 2017/18:

a) For the adverse option model of the strategic revenue projection the assumption made is that the value of the council's pension fund has worsened not improved and an increase over the £1.558m estimate is required. The model adds an addition £200,000 to the 2016/17 budget of £1.475m so that 2017/18 will have a base budget of £1.675m

b) Based on the stability of interest rates and the continually low rate of inflation over the three year period since the last valuation, the recommended option model of the strategic revenue projection assumes a need to reach the valuer's current valuation of £1.558m this is £83,000 more than the current budget. This additional increase is required in 2017/18.

Housing benefit administration grant

4.52 This council was amongst the first in Kent to introduce the first stage of the universal credit roll out. This system replaces many welfare benefits with a single system and effects the way in which housing benefit will be awarded in the future. The first stage has little effect upon the council's benefits claimants as it affects only single persons in specific circumstances.

4.53 Longer term there will be an impact and the government has already commenced reductions in the level of administration grant. These reductions continue will over the next few years as fraud investigation is centralised under the department for works and pensions and the number of claimants that fall within the universal credit system increases.

4.54 The three models all make varying assumptions regarding reductions in administration grant. The adverse model assumes immediate loss of £300,000. The recommended model assumes the gradual loss of the same £300,000 over the next three years and the favourable model assumes no loss for 2016/17 then a £300,000 reduction over two years 2017/18 and 2018.

Staffing levels within Economic Development

4.55 The economic development service within the council has a key role to play in delivering some of the council's strategic objectives in relation to employment, skills and regeneration. Previously, the council has recognised that the service is under resourced if it is to deliver the objectives effectively.

4.56 Over the past two years the council has utilised the balance of the growth point grant funding to employ three additional members of staff and has, over the three year period ending 31 March 2017, increased funding within the services base budget to cover the salary costs once the balance of the growth point grant is depleted. For 2016/17 the final funding of £30,000 is required.

4.57 This is a previously agreed pressure and is used in all three models of the strategic revenue projection.

Summary of strategic revenue projections

4.58 The three strategic revenue projections given at Appendix C result in identical resource levels by 2020/21 as all three are based on similar medium term assumptions, varying only over the short term. This is because accurate medium term information is not available.

4.59 In providing local government with resource and policy information it is rare that central government consider further than the current information plus one year. This results in a lack of stability in budget planning in the medium term. This issue has long been debated by local government and is linked to the new devolution plans of central government. At this time it is unlikely that these plans will affect this council but a consequence may be greater awareness of central government's long term plans leading to greater accuracy in medium term financial planning.

4.60 The three strategic revenue projections provide the committee with information relating to the potential budget pressure for each year. This allows the required level of saving and efficiency to be calculated. This is shown in the detail in Appendix C and tabled for the three options below:

Year	**Adverse £,000**	**Recommended £,000**	**Favourable £,000**
2016/17	2,581	1,632	1,482
2017/18	769	791	708
2018/19	643	713	713
2019/20	56	526	476
2010/21	53	103	53

Total	4,102	3,765	3,432

Table 6: Savings and efficiency requirements from strategic revenue projections

4.61 Savings of between £3.4 and £4.1m are required during the period of the MTFS if one of the three models is selected. The immediate savings target to deliver a balanced budget for 2016/17 is between £1.5m and £2.6m.

CAPITAL PROGRAMME, FUNDING AND CAPITAL MTFS

4.62 At this time the capital programme is limited in its scope. This is due to the limitations on resources and the previously stated objective of the council to resource infrastructure work required by the local plan and infrastructure delivery plan.

4.63 In order to present an affordable and objective basis to plan the future capital programme, the current capital programme has been incremented by one year. This programme is set out at **APPENDIX D** and includes a further year, 2020/21, based on a continuation of the current programme of funding. The only additional resources identified are an additional year of receipts from New Homes Bonus and a forward projection of possible community infrastructure levy receipts.

4.64 It is necessary for the committee itself to consider the prioritised use of the resources within its service areas. One example being the use of the resources set aside for commercial projects. It will be necessary for the committee to consider options in full at its next meeting. It is also appropriate for the service committees to put forward proposals for capital schemes following their consideration of the budget.

4.65 Schemes and priorities identified by all committees would be evaluated in accordance with the current MTFS criteria and following final approval from this committee held awaiting the identification of capital resources.

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 This report is the commencement stage of the development of the MTFS and the budget for 2016/17. From this report information will be provided to each service committee for consideration and referral back to this committee. Once a strategic revenue projection and MTFS has been approved in draft, public consultation will commence.

5.2 This committee’s final opportunity to consider the MTFS and feedback from consultation and other committees’ views will be the meeting in February 2016.

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 This decision will be discussed with the chairman and vice-chairman of each service committee at their agenda planning meeting in order to prepare for a report on the current situation and proposals for the future.

6.2 Briefing sessions will be held with all interested members and officers at a service committee level during August 2015 so that discussions from these briefing sessions can be incorporated into each service committee report in September 2015.

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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	It is the purpose of the MTFS to allocate resources to the priorities in the strategic plan, including the allocation of resources to other plans and strategies developed to achieve those outcomes.	Head of Finance & Resources
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. The MTFS is improved each year to enhance its resilience and effectiveness. The MTFS is considered by this committee, all service committees, the Audit Governance & Standards Committee and Council. Specific budget risks and opportunities are identified in the main body of the report, especially the consideration of the factors in the strategic revenue projection. The selection of the most appropriate strategic revenue projection and the continued monitoring of the factors included will help mitigate these risks	Head of Finance & Resources
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences from the recommendations in this report.	Head of Finance & Resources
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Head of Finance & Resources

Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Head of Finance & Resources
Equality Impact Needs Assessment	The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Head of Finance & Resources
Environmental/Sustainable Development		
Community Safety		
Human Rights Act		
Procurement		
Asset Management	Resources available for asset management are contained within the strategic revenue projections set out in this report.	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Appendix A - Summary Budget 2015/16 and Outturn 2014/15
Appendix B - Medium Term Financial Strategy 2015/16 Onwards
Appendix C - Strategic Revenue Projection 2016/17 Onwards (Options)
Appendix D - Capital Programme 2015/16 Onwards

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9. BACKGROUND PAPERS

None