

Medium Term Financial Strategy and Budget Proposals

Final Decision-Maker	Council
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Classification	Public
Wards affected	All

Executive Summary

This report forms part of the process of agreeing a budget for 2018/19 and setting next year's Council Tax. Following agreement by Council of the Medium Term Financial Strategy at its meeting on 25 October 2017, this report sets out budget proposals for services within the remit of this Committee.

This report makes the following recommendations to this Committee:

It is recommended that the Committee:

1. Agrees the revenue budget proposals for services within the remit of this Committee as set out in Appendix C for submission to Policy and Resources Committee.
2. Agrees the capital budget proposals for services within the remit of this Committee as set out in Appendix E for submission to Policy and Resources Committee.

Timetable

Meeting	Date
Heritage, Culture & Leisure Committee	30 January 2018
Policy and Resources Committee	14 February 2018
Council	28 February 2018

Medium Term Financial Strategy and Budget Proposals

1. INTRODUCTION AND BACKGROUND

Medium Term Financial Strategy

- 1.1 At its meeting on 25 October 2017, Council agreed a Medium Term Financial Strategy (MTFS) for the next five years. The starting point for the MTFS is that budget savings for 2017/18 are on track for delivery, a modest underspend is currently projected for the year as a whole, and the level of reserves is adequate, but not excessive.
- 1.2 The MTFS provides the financial underpinning for the Council's Strategic Plan, in particular the three action areas highlighted for specific focus: a clean and safe environment; regenerating the Town Centre; and a home for everyone, ie tackling homelessness and improving housing supply.
- 1.3 There is a high degree of uncertainty about the external environment. The four year financial settlement to local authorities announced in 2016 has another two years to run. This includes £1.6 million negative Revenue Support Grant payable by the Council to central government in 2019/20, but the four year settlement at least provides a measure of certainty about the Council's funding position in the short term. However, after 2020/21 it remains unclear how any new financial settlement will affect the Council. It is also unclear how the lower level of overall economic growth now projected by the Office of Budget Responsibility will impact the Council.
- 1.4 Given uncertainty about the future, various potential scenarios were modelled in the MTFS, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. All scenarios assumed that budget savings included within the existing MTFS, set out in Appendix B, can be delivered. Projections were prepared for each of the scenarios modelled and the MTFS stated that budget proposals would be sought to address all the potential scenarios.

Updates to Strategic Revenue Projections

Council Tax

- 1.5 The MTFS assumed in all scenarios that Band D Council Tax would continue to increase by £4.95 per annum, reverting to 2% in 2019/20 when this becomes a greater figure than £4.95.
- 1.6 The other key assumption regarding Council Tax is the number of new properties. The number of new properties has been increasing in recent years, from a low of 0.38% in 2014 to 1.18% in 2016. Assumptions were as follows:

Favourable – 2%
Neutral – 1.5%
Adverse – 1%

- 1.7 The Council Tax base for 2018/19 has now been calculated and agreed by Policy and Resources Committee. This shows an increase of 1.6% in new properties for the year to 20 September 2017. The SRP has been updated to reflect this and the related Council Tax base increase.

Business Rates

- 1.8 Business rates income is highly volatile, owing to the large number of assessments that are subject to appeals. However, the underlying pattern is of continuing growth in business rates income above and beyond the baseline figure assumed in the government's funding settlement. The assumption included in the MTFS of growth of 2% has therefore been retained.
- 1.9 It is likely that as part of any new funding settlement with effect from 2020/21, business rates growth will be reset to zero. In other words, councils will lose the benefit of growth accumulated since the introduction of the present system in 2014, and their share of business rates will be recalculated based on the results of the Fair Funding Review. This review is intended to reset the starting point for local authorities' funding, based on their respective needs and resources. It will have the effect of redistributing resources away from high business rates growth areas to low growth areas in the short term.
- 1.10 Some of business rates growth is currently being used to fund the Council's economic development activity. Given the volatility of business rates, this source of income is not stable and cannot be predicted with certainty for the future. Accordingly, this feeds into the corporate risk that financial restrictions limit the Council's capacity to promote the borough's future financial growth.

Fees and Charges

- 1.11 The MTFS assumes that fees and charges will increase in line with overall inflation assumptions. Any volume increase is offset by the drag on increases caused by the fact that not all fees and charges are within the Council's control, many being set by statute. This assumption continues to be applied in the updated SRP.
- 1.12 It is assumed that the Planning Fee increases announced by the government in Spring 2017, implementation of which was then delayed by the General Election, will apply for the whole of 2018/19.

Inflation

- 1.13 Inflation continues to be at a higher level than the government's 2% target. The main impact of inflation for the Council will be in its effect on payroll costs. In the Chancellor's Budget Statement on 22 November, pay increases for the public sector were left to be determined based on the recommendations of individual sector pay review bodies. Maidstone Borough Council agrees pay for its staff independently of local government collective arrangements, so is not bound by these. The updated SRP retains

the assumption of a 1% pay increase that was included within the MTFS agreed by Council in October.

Spending Pressures

1.14 Allowance is made in the SRP for known spending pressures. The main additional spending pressures now included are as follows:

Temporary Accommodation £218,000 – The existing MTFS assumed that £118,000 of the additional funding put into Temporary Accommodation in 2017/18 could be withdrawn. Continuing pressures in this area mean that this is not realistic; instead an additional £100,000 will be required, based on current projections.

Loss of interest income £120,000 – Continuing low interest receivable on cash balances means that the budget level of interest is not achievable. To date the recent increase in Bank of England base rates has not led to a corresponding increase in returns available in the market.

Planning enforcement £100,000 – There is currently a backlog of planning enforcement work, so a one-off provision has been included in the MTFS for 2018/19 to allow this to be addressed. This has been funded through a reduction of £100,000 in the provision for Planning appeal costs, which were originally estimated as £500,000 in the MTFS, based on a current assessment of the risks faced. Provision had already been made for Planning appeal costs in the existing MTFS. Whilst the provision will be charged to 2018/19, if necessary any unused provision may be carried forward to subsequent years.

Market £40,000 – The market operated by Maidstone Council at Lockmeadow has consistently under-performed on its income targets. Whilst steps are being taken to develop new income sources, it is considered that a reduction of £40,000 on an ongoing basis should be incorporated into the SRP.

Heather House £25,000 – Communities, Housing & Environment Committee has recently decided to continue operating Heather House as a community hall. Income generated from the hall is currently well below budget levels and although it is hoped that income can be built up again it is appropriate to include a provision for an ongoing shortfall of £25,000.

Chancellor's Budget Statement

1.15 The Chancellor's Budget Statement on 22 November 2018 reflected more pessimistic growth projections from the Office of Budget Responsibility. Whilst the main impact of the reduced growth was offset by projected increases in government borrowing, the implications for general economic growth and for public sector spending are unfavourable.

1.16 The statement included the following announcements relevant to local government:

Housing

- A range of measures were announced, with the intention of increasing the rate of new home construction to 300,000 per annum, including an additional £2.7 billion for the Housing Infrastructure Fund , £1 billion for a new Land Assembly Fund and £630 million for a Small Sites Fund.
- The Housing Revenue Account borrowing cap has been lifted for Councils in areas of 'high affordability pressure'. (This will not benefit non-housing stock owning Councils such as Maidstone).
- Councils may increase the Council Tax Empty Homes premium as an incentive to bring properties back into use.

Business Rates

- The annual business rates increase will now be based on the Consumer Prices Index, rather than the higher Retail Prices Index. Given that CPI is running at 3%, this will still mean a significant increase for businesses.
- The frequency of business rates revaluations will be increased to once every three years, compared with once every five years now.
- Local government will be fully compensated for the loss of income as a result of these measures.
- A 100% business rates retention pilot was announced for London. It was subsequently announced by the Secretary of State for Communities and Local Government that the Kent and Medway application to become a pilot area for 100% retention was successful. This may result in an additional £640,000 Business Rates income being retained by Maidstone during 2018/19 and a report went to Policy and Resources Committee on 24 January 2018 with proposals for the budget allocation of this amount.

1.17 There were no announcements about future local government funding, so no specific updates have been made to the SRP arising from the budget.

Summary

1.18 The overall effect of the changes in assumptions set out above is to increase the cumulative budget gap at the end of the five year financial planning period in the neutral scenario from £3.8 million in the MTFS to £4.6 million now. Appendix A sets out the updated neutral scenario Strategic Revenue Projection.

1.19 At this stage, given that there have been no fundamental changes required to the MTFS budget assumptions, and given the certainty provided by the four year funding settlement, it is appropriate to plan for the short term on the basis of the neutral budget scenario. However, this assumption will continue to be kept under review, both when finalising the budget for 2018/19 and when updating the MTFS as part of next year's budget process.

Budget Proposals - Revenue

- 1.20 Budget proposals have been developed in response to the projections set out in the MTFs. Heads of Service were asked to develop proposals both in response to the neutral scenario and to the adverse scenario. 'Neutral scenario' proposals were based on achieving further service efficiencies, increasing income, and investing to generate revenue growth. The 'neutral' budget proposals, if delivered, will ensure that the budget remit of a balanced position for 2018/19 can be secured. Details of budget proposals relating to services within the remit of this Committee are set out in Appendix C.
- 1.21 Two changes have been made to the existing budget proposals within the remit of this Committee that were agreed by Council in March 2017. The projected saving from reviewing the Museum's operating and governance model has been reprofiled and the saving of £50,000 that is due to be made as a consequence in 2018/19 has been netted off planned expenditure growth in the same year. The saving from ceasing direct delivery of festivals and events has slipped by one year, so that the final saving of £10,000 now arises in 2020/21 rather than 2019/20. Note that the amendments have no overall impact on net expenditure in the Medium Term Financial Strategy over the five year planning period. The existing budget proposals, as amended, are set out in Appendix B for information.
- 1.22 Finally, provision was made in the budget for 2017/18 for a loss of budgeted income from the Mote Park café of £96,000, following the poor performance of the café in 2016/17. Now that operation of the café has been contracted out, additional income of £56,000 has been reinstated in the budget, in line with the additional amount expected to be received under the new contract.
- 1.23 The overall effect of the above changes for this committee for 2018/19 will therefore be as follows:

	£
Loss of income – Market – see para 1.14	40,000
Mote Park Café contract – see para 1.22	-56,000
Existing savings – as per Appendix B	-110,000
New saving – Mote Park Adventure Zone – as per Appendix C	-49,000
Net decrease in expenditure	<u>-175,000</u>

- 1.24 'Adverse scenario' proposals were developed for contingency planning purposes, based on a more radical approach, including service cuts. It is not proposed to explore these options further at this stage, given that the 'neutral' proposals and existing agreed savings proposals are sufficient to meet the budget remit. The 'adverse' budget proposals will be revisited and updated as necessary if it appears that the assumptions on which neutral scenario is based are no longer valid.

Capital Programme

1.25 The existing capital programme 2017/18 – 2021/22 was approved by Council at its budget meeting on 1st March 2017. Details for this Committee are attached at Appendix D.

1.26 These proposals have been developed further in line with the Council's Capital Strategy, and a revised version of the proposed programme covering the period 2018/19 – 2022/23 is attached at Appendix E. The Committee is asked to approve the capital programme set out in this appendix for recommendation to Policy & Resources. The proposed programme incorporates the following projects:

Mote Park Dam works - £1.9 million (new)

Mote Park Lake is effectively a reservoir retained by a dam at its western end. A recent review of dam safety under the Reservoirs Act 1975 included a mandatory recommendation that the spillway capacity is increased to reduce the risk of failure due to overtopping. The Council must carry out the necessary work by June 2020 to avoid enforcement action by the Environment Agency. This work therefore comes under the first heading set out in paragraph 1.4, 'required for statutory reasons'. Consultants have been commissioned to design a suitable scheme for upgrading the spillway. Current estimates are that the cost will be in the order of £1.4 million to £1.9 million. The higher figure has been used for the purposes of capital planning, but detailed work is needed in order to arrive at a scheme budget. Member approval will in any case be sought for expenditure on the scheme.

Mote Park Visitor Centre - £1.6 million

An allowance has been made in the capital programme for a visitor centre as part of the strategy to develop a sustainable future for Mote Park. Plans are now well advanced for its construction.

Mote Park Adventure Zone and Other Improvements - £0.9 million

The Adventure Zone forms part of the current capital programme. It is linked to improvements intended to increase parking capacity within the park.

Continued improvements to play areas - £0.9 million

The rationale of this project is to establish a standard for play across the borough, such that 'most residents will live within 12 minutes' walk of a good quality play area'. As some of these strategically important play areas are owned by parish councils it is proposed that these parishes be offered a £10,000 grant towards improving their play areas. The total cost of this grant would be £200,000. S106 money is available to be used towards improving play areas.

Museum Development Plan - £0.4 million

As part of the ongoing development of the museum, a number of further projects are envisaged.

Crematorium Development Plan - £0.4 million

A number of schemes are proposed to upgrade the crematorium including the provision of additional parking.

Other Parks Improvements - £0.1 million

These works are to update aging infrastructure.

2. AVAILABLE OPTIONS

- 2.1 Agree the revenue and capital budget proposals relating to this Committee as set out in Appendix C and Appendix E (respectively) for onward submission to the Policy and Resources Committee.
 - 2.2 Propose changes to the budget proposals for consideration by the Policy and Resources Committee.
 - 2.3 Make no comment on the budget proposals.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Policy and Resources Committee must recommend to Council at its meeting on 14 February 2018 a balanced budget and a proposed level of Council Tax for the coming year. The budget proposals included in this report will allow the Policy and Resources Committee to do this. Accordingly, the preferred option is that this Committee agrees the revenue budget proposals at Appendix C, and the proposed capital programme at appendix E.
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4. RISK

- 4.1 The Council's MTFS is subject to a high degree of risk and certainty. In order to address this in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each of its meetings.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Policy and Resources Committee received an initial report on the MTFS at its meeting on 28 June 2017 and it agreed the approach set out in that report to development of an updated MTFS for 2018/19 - 2022/23 and a budget for 2018/19.
- 5.2 Policy and Resources Committee then considered a draft MTFS at its meeting on 25 July 2017, which was agreed for submission to Council. The MTFS included descriptions of the different scenarios facing the Council and described how budget proposals would be sought for all scenarios, so that the Council might be suitably prepared for the adverse scenario, as defined. Council agreed the MTFS at its meeting on 25 October 2017.
- 5.3 Detailed budget proposals were reported to Policy and Resources Committee at its meeting on 13th December 2017 and it was noted that they would be considered by the relevant Service Committees, including this Committee, during January 2018. Residents' and businesses' views will also be sought.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The timetable for setting the budget for 2018/19 is set out below.

Date	Meeting	Action
13 December 2017	Policy and Resources Committee	Agree initial 18/19 budget proposals for consideration by Service Committees
January 2018	All Service Committees	Consider 18/19 budget proposals
14 February 2018	Policy and Resources Committee	Agree 18/19 budget proposals for recommendation to Council
28 February 2018	Council	Approve 18/19 budget

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on 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. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Section 151 Officer & Finance Team
Risk Management	See section 4 above.	Section 151 Officer &

		Finance Team
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 of the recommendations in this report.	Section 151 Officer & Finance Team
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
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.	Legal Team
Privacy and Data Protection	Adopting a budget has no incremental impact on privacy and data protection. All budgetary data is held in line with current policies and procedures.	Section 151 Officer & Finance Team
Equalities	Where appropriate, Equalities Impact Assessments are carried out for specific budget proposals.	Policy and Information Manager
Crime and Disorder	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Section 151 Officer & Finance Team
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Section 151 Officer & Finance Team

8. REPORT APPENDICES

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

- Appendix A: Strategic Revenue Projection
 - Appendix B: Budget Proposals in existing MTFS (updated)
 - Appendix C: New Budget Proposals – Neutral Scenario
 - Appendix D: Capital Budget Proposals in existing MTFS
 - Appendix E: New Capital Budget Proposals
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9. BACKGROUND PAPERS

There are no background papers.