

**Medium Term Financial Strategy and Budget Proposals  
2020/21**

<b>Final Decision-Maker</b>	Council
<b>Lead Head of Service/Lead Director</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report represents the final stage in this Committee's consideration of the budget for 2020/21. It brings together revenue and capital budget proposals for 2020/21, including a proposed level of Council Tax, so that a balanced budget may be recommended to Council on 26<sup>th</sup> February 2020. The budget proposals are consistent with the Medium Term Financial Strategy agreed by Council on 18<sup>th</sup> December 2019, which envisaged a standstill budget in 2020/21 with updating to allow for inflation and a corresponding increase in Council Tax. It should be noted that the position for 2021/22 and subsequent years remains unclear, pending the introduction of a new local government funding regime.

The budget proposals have been considered by Service Committees and their comments have been reflected in the latest Strategic Revenue Projection attached to this report. A number of further minor adjustments have been made to the Strategic Revenue Projection and are described in the report. The report also deals with the proposed capital programme 2020/21 to 2024/25 and the Council's level of reserves.

**This report makes the following recommendations to this Committee:**

It is recommended that the Committee:

1. Notes the outcomes of consideration of budget proposals by the Service Committees;
2. Agrees the updated Strategic Revenue Projection set out in Appendix A;
3. Agrees the Budget Savings Proposals set out in Appendix B;
4. Agrees the Revised Estimates for 2019/20 and the Budget Estimates for 2020/21 set out in Appendix C for recommendation to Council;
5. Agrees the Capital Programme set out at Appendix D for recommendation to Council;

6. Agrees the Treasury Management Strategy, Investment Strategy and Capital Strategy set out in Appendix E for recommendation to Council;
7. Agrees a £5.13 increase in Band D Council Tax for 2020/21 for recommendation to Council;
8. Agrees that the tax base for Linton Parish Council calculated in accordance with the Local Authority (Calculation of Council Tax Base) (England) Regulations 2012 for the year 2020/21 be amended from 93.5 to 254.5 (see paragraph 2.18).
9. Agrees the updated Medium Term Financial Strategy set out in Appendix G;
10. Recommends to Council the appropriate matters for decision to set a balanced budget for 2020/21 and the necessary level of Council Tax in accordance with the Local Government Finance Act 1992 and the Localism Act 2011 including the decisions made above.

<b>Timetable</b>	
<b><i>Meeting</i></b>	<b><i>Date</i></b>
Policy and Resources Committee	12 February 2020
Council	26 February 2020

# Medium Term Financial Strategy and Budget Proposals

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	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
<b>Cross Cutting Objectives</b>	The MTFS and the budget support the cross-cutting objectives in the same way that they support the Council's other strategic priorities.	Section 151 Officer & Finance Team
<b>Risk Management</b>	This has been addressed in section 5 of the report.	Section 151 Officer & Finance Team
<b>Financial</b>	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
<b>Staffing</b>	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
<b>Legal</b>	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling its duties under the Act.</p> <p>The Council is required to set a council tax by the 11 March in any year and has a statutory obligation to set a balanced budget. The budget requirements and basic amount of Council Tax must be calculated in accordance with the requirements of sections 31A and 31B to the Local Government Finance Act</p>	Legal Services

	<p>1992 (as amended by sections 73-79 of the Localism Act 2011).</p> <p>The Council is required to determine whether the basic amount of council tax is excessive as prescribed in regulations - section 52ZB of the 1992 Act as inserted under Schedule 5 to the Localism Act 2011. The Council is required to hold a referendum of all registered electors in the borough if the prescribed requirements regarding whether the increase is excessive are met.</p> <p>Approval of the budget is a matter reserved for full Council upon recommendation by Policy and Resources Committee on budget and policy matters.</p>	
<b>Privacy and Data Protection</b>	<p>Privacy and Data Protection is considered as part of the development of new budget proposals. There are no specific implications arising from this report.</p>	<p>Policy and Information Team</p>
<b>Equalities</b>	<p>The MFTS report scopes the possible impact of the Council's future financial position on service delivery. When a policy, service or function is developed, changed or reviewed, an evidence-based equalities impact assessment will be undertaken. Should an impact be identified appropriate mitigations will be sought.</p>	<p>Equalities and Corporate Policy Officer</p>
<b>Public Health</b>	<p>The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.</p>	<p>Public Health Officer</p>
<b>Crime and Disorder</b>	<p>The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.</p>	<p>Section 151 Officer &amp; Finance Team</p>
<b>Procurement</b>	<p>The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.</p>	<p>Section 151 Officer &amp; Finance Team</p>

## **2. INTRODUCTION AND BACKGROUND**

2.1 This section sets out revenue and capital budget proposals for 2020/21 as follows:

- Background
- Local Government Finance Settlement 2020/21
- Feedback from Service Committees on budget proposals
- Updates to Strategic Revenue Projection
- Revenue Estimates
- Capital Programme
- Balances / Earmarked Reserves

### **Background**

2.2 At its meeting on 18 December 2019, Council agreed an updated Medium Term Financial Strategy (MTFS) for the next five years. The MTFS sets out in financial terms how the Council's Strategic Plan will be delivered, given the resources available.

2.3 The MTFS builds on the previous year's MTFS, which was developed in parallel with the Council's new Strategic Plan. There were relatively few new developments to be incorporated in the updated MTFS, given the recent adoption of a Strategic Plan and the delay in the introduction of a new local government funding regime from 2020/21 to 2021/22. This meant that, broadly speaking, the Council could set a 'stand-still' budget for 2020/21. Members have agreed the principle of maintaining the level of Council Tax in real terms, which would be consistent with this approach.

2.3 The financial projections underlying the MTFS were prepared under three different scenarios – adverse, neutral and favourable. All three scenarios assumed that budget proposals for future years which have already been agreed by Council would be delivered, and that Council Tax is increased by 2% in 2020/21.

2.5 The MTFS 'neutral' revenue projections indicated that a broadly balanced position could be achieved for 2020/21, so no specific targets were set for savings or increased income generation in this year. Service pressures, or new initiatives with revenue expenditure implications, would be funded from within the overall budget envelope.

2.8 In subsequent years, the projections indicate a likely requirement either to make savings or generate increased income. The exact size of the budget gap depends on the new local government funding regime. Early indications of the implications for Maidstone are expected in Spring 2020. Officers will start developing appropriate plans as soon as these become available and will report to Members at the earliest available opportunity.

### **Local Government Finance Settlement 2020/21**

2.9 The Provisional Local Government Finance Settlement for 2020/21 was announced on 20 December 2019. Given the major changes in funding arrangements expected next year, there were no significant new

announcements for 2020/21. The details confirmed the key assumptions incorporated in the MTFS:

- Retained business rates income will be £3.260 million (the MTFS projection was £3.269 million)
- New Homes Bonus has been retained for another year, giving £4.472 million to help fund our capital programme
- The Council Tax referendum limit will be 2%
- There will be no negative Revenue Support Grant.

### **Feedback from Service Committees on Budget Proposals**

#### 2.10 Strategic Planning and Infrastructure Committee (7 January 2020)

The Committee expressed concerns about the adequacy of the budget for the Local Plan Review. It recommended that Policy and Resources Committee retain the budget of £200,000 per year, which had been due to expire at the end of the current Local Plan Review process. The Committee also asked for more detail as to whether the budget is sufficient for the ongoing requirements of the Local Plan Review. With this additional recommendation, the budget proposals were agreed for submission to the Policy and Resources Committee.

#### 2.11 Communities, Housing and Environment Committee (14 January 2020)

Concerns were raised about the capital budget proposal for the provision of water fountains. The Head of Environment & Public Realm explained that the provision of water fountains was included within the Waste Strategy as part of an investment in infrastructure to reduce waste. It was agreed that a report on the water fountains would be made available for Members at the next Committee meeting. The budget proposals were agreed for submission to the Policy and Resources Committee.

#### 2.12 Policy and Resources Committee (22 January 2020)

Budget proposals for services within the remit of the Committee were agreed.

#### 2.13 Economic Regeneration and Leisure Committee (28 January 2020)

The Committee expressed interest in opening the Town Hall for functions and events in order to increase income for the Council. It recommended that the Democracy & General Purposes Committee consider options for promoting the Town Hall at weekends to increase income for the Council. The budget proposals were agreed for submission to the Policy and Resources Committee.

#### 2.14 Conclusion

The only substantive change recommended following consideration of the budget proposals by the Service Committees was the recommendation of the Strategic Planning and Infrastructure Committee that £200,000 per annum for work on the Local Plan Review be built into the budget on a

permanent basis. The Strategic Revenue Projection in Appendix A has been amended accordingly, so if Policy and Resources Committee agree the recommendations at the beginning of this report, this proposal would be adopted. There is no impact on 2020/21 as £200,000 was already included in that year's budget projection.

## Updates to Strategic Revenue Projection

### Council Tax

- 2.15 Policy and Resources Committee agreed at its meeting on 22 January 2020 that the Council Tax Base for 2020/21 will be 63,319.80. This is slightly more than the increase in the Council Tax Base assumed in the MTFS. Although the number of new homes is broadly in line with projections, the deduction from the Council Tax Base for Council Tax Support has reduced slightly, because the number of claimants is projected to fall. The agreed Council Tax Base will yield total Council Tax income of £16,817,106 if Band D Council Tax is increased by 2% (£5.13), as set out in the agreed Medium Term Financial Strategy. This is £89,000 more than in the original Strategic Revenue Projection in the MTFS.
- 2.16 Taking into account expected increases in precepts from other organisations, the overall level of Band D Council Tax will be as follows:

	% change from last year	
Kent County Council	2.0	£1,232.64
Kent County Council Social Care Precept	2.0	£118.62
Kent Police and Crime Commissioner	5.2	£203.15
Kent Fire and Rescue Service	2.0	£79.29
Maidstone Borough Council	2.0	£260.46
<b>ANNUAL CHARGE FOR 2020/21</b>	<b>3.7</b>	<b>£1,899.29</b>

- 2.17 Subsequent to this Committee approving the tax base for 2020/21 for the borough council and each parish area at its meeting on 22 January 2020, officers have identified an error in the tax base of 93.5 calculated for Linton parish and agreed by the committee. The tax base for 2020/21 when calculated correctly should be 254.5.
- 2.18 In order to correct this error, members of this committee are asked to agree the revised parish tax base (Appendix H) which incorporates the corrected tax base for Linton. This error does not have any impact on the overall tax base for the borough and consequently does not affect the forecast council tax income included in the budget projections for next year. Officers have also checked the other calculations included in this appendix and are satisfied that this error is isolated to Linton parish only. Internal quality control procedures will be reviewed to ensure that this error does not recur in future years.

## **Business Rates**

- 2.19 The Business Rates income estimate for 2020/21 is based on the recently completed NNDR1 return that has to be provided to the Department of Housing Communities and Local Government each January.
- 2.20 The Business Rates baseline, ie the notional amount of business rates due to the Council, after payments to preceptors and the government's tariff, excluding any growth, is £3.260 million, as set out in the Provisional Local Government Finance Settlement.
- 2.21 The NNDR1 return indicates that there will be further business rates growth in addition to this. Maidstone's share of this growth amounts to £1.21 million, which is £58,000 more than assumed in the MTFS. The increase arises from further growth in the underlying rateable value of business property in Maidstone.
- 2.22 Kent County Council and ten of the Kent districts continue to pool their business rates growth, which has the effect of reducing the levy on business rates growth that would otherwise be payable to central government. As previously agreed by Council, Maidstone's 30% share of the saving on the levy is ringfenced for investment in the Council's economic development strategy. A further 30% represents a Growth Fund, spent in consultation with Kent County Council. Neither of these amounts are reflected in the Strategic Revenue Projection, as they have been earmarked for specific purposes.
- 2.23 Both Council Tax and Business Rates income are accounted for through the Collection Fund. Any surplus or deficit at the end of the year on the Collection Fund is distributed between the Council, preceptors and central government as required by statute. The outturn for the Collection Fund will be reported to this Committee alongside the General Fund outturn for 2019/20 at its meeting in June 2020 and its allocation agreed at that time.

## **Fees and Charges**

- 2.24 The level of fees and charges made by each Service Area were considered by Service Committees at their meetings in January 2020. The combined effect of changes in fees and charges has been incorporated in the budget proposals in Appendix B.

## **Inflation**

- 2.25 The core inflation assumption in the MTFS is 2%. Although CPI inflation is currently running at less than this amount, 2% remains the government's inflation target, and creates an expectation about inflation which is reflected in particular in pay demands and hence wage inflation. Payroll is the Council's single biggest area of expenditure, so is a major determinant of the inflation pressures overall for the Council.
- 2.26 The Council's inflation assumptions are applied to service budgets on a line-by-line basis when drawing up the budget. The draft inflation allowance included in the MTFS Strategic Revenue Projection is calculated on costs



across the board, so when detailed budgets are finalised there is always an adjustment, which has led this year to the projected allowance for inflation in the Strategic Revenue Projection increasing by £13,000.

### **Revenue costs of capital programme**

- 2.27 An allowance is made in the Strategic Revenue Projection for the revenue costs of the capital programme, ie financing costs and Minimum Revenue Provision. Having reviewed the capital programme, as updated and approved by Policy and Resources Committee at its meeting on 22 January, the 2020/21 revenue costs of the capital programme in the Strategic Revenue Projection have increased by £34,000.

### **Summary**

- 2.28 In summary, the impact of the above changes to the Strategic Revenue Projection for 2020/21, as compared with the position shown in the Medium Term Financial Strategy as adopted by Council on 18 December 2019, is as follows:

	£000
Projected budget surplus for 2020/21 as per MTFS	96
Net effect of amended and new budget proposals as reported to Service Committees in January	-89
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Projected budget surplus for 2020/21 as reported to Policy and Resources Committee 22 January 2020	7
<u>Add:</u>	
Higher than projected increase in Council Tax base	89
Higher than projected business rates growth	59
<u>Less:</u>	
Government recalculation of business rates baseline	-9
Increase in inflation allowance	-24
Revenue effects of updating capital programme	-34
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Updated budget surplus for 2020/21	<u>87</u>

The Strategic Revenue Projection at Appendix A assumes that the surplus of £87,000 will be carried forward to 2021/22, thus reducing the projected deficit that year.

### **Revenue Estimates**

- 2.29 Attached at Appendix C is a summary of the revenue budget for 2020/21, based on the assumptions above. The summary shows the Original Estimate 2019/20 as approved by Council in February 2019; the Revised Estimate 2019/20 calculated as part of the budget development work completed this year; and the Estimate for 2020/21 based upon the details set out in this report. The Estimate for 2020/21 is analysed between gross

expenditure, income and net expenditure, so that Members may see clearly how income generated by the Council contributes towards expenditure budgets.

- 2.30 Appendix C presents the Committee with the budget structured in line with the relevant Service Committees and separately structured in line with the strategic priorities set out in the Strategic Plan.
- 2.31 The Revised Estimate 2019/20 shown in Appendix C totals £20,561,640. This figure is net of all income with the exception of the use of balances and the council tax requirement.
- 2.32 The Estimate for 2020/21 shown in Appendix C totals £21,200,230. This incorporates all the items discussed above. The figure is net of all income with the exception of Council Tax and Business Rates income. It excludes precepts.

### **Capital Programme**

- 2.33 A draft Capital Programme was reported to Committee at its meeting on 22 January 2020. The Capital Programme totals £108 million over five years and includes a number of major schemes intended to achieve the Council's long term strategic objectives. Details are set out in Appendix D.
- 2.34 The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. In 2012 the Council approved in principle the use of prudential borrowing. It borrowed for the first time in November 2019 when completing the purchase of the Lockmeadow Leisure Complex. The proposals set out in this report indicate a need for up to £82.418 million additional prudential borrowing over the life of the programme. The revenue costs of this borrowing are reflected in the Strategic Revenue Projections.
- 2.35 The arrangements for funding the capital programme are set out in the Treasury Management Strategy, Investment Strategy and Capital Strategy, which were considered by the Audit Governance & Standards Committee at its meeting on 13 January 2020. The Audit Governance & Standards Committee was made aware of the potential for prudential borrowing arising from approval of the recommendations in this report. It agreed the Treasury Management Strategy, Investment Strategy and Capital Strategy, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee. The updated Treasury Management Strategy, Investment Strategy and Capital Strategy are accordingly included as Appendix E.

### **Balances / Earmarked Reserves**

- 2.36 Attached at Appendix F is a statement of general fund balances and details of earmarked reserves. 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.

2.37 General fund balances are estimated to be £12.3 million by 31 March 2021. In considering the level of reserves that should be maintained Committee should make two decisions:

- a) The first is an absolute minimum below which the Committee cannot approve the use of balances without agreement by the Council. This figure is currently set at £2,000,000. It is recommended that Committee propose to Council that the minimum level of balances be maintained at £2,000,000.
- b) The second is an operational minimum set for daily use of balances by the Policy & Resources Committee. In the past this has been set £300,000 above the Council set minimum. This makes £2,300,000 and it is recommended that Committee approve the principle that the minimum level of balances for daily use should be £300,000 above the Council set minimum.

It can be seen that the level of reserves is comfortably in excess of the minimum levels described.

### **Medium Term Financial Strategy**

2.38 Attached as Appendix G is the Medium Term Financial Strategy, updated to reflect the latest position as described in this report.

2.39 The financial projection that complements the Medium Term Financial Strategy is the Strategic Revenue Projection given at Appendix A. The financial projection considers the need for growth and savings over the period of the Medium Term Financial Strategy and incorporates assumptions about inflation and changes in local and national initiatives.

2.40 The financial projection that complements the Capital Medium Term Financial Strategy Statement is the capital programme given at Appendix E.

2.41 The Strategy may require amendment following Committee's consideration of this report or following consideration by Council on 26th February 2020. The final versions will be published as part of the budget documents on the Council's website following the Council meeting.

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## **3 AVAILABLE OPTIONS**

3.11 **Option 1:** To not recommend a budget or recommend a budget that is not balanced to Council.

3.12 The Council is statutorily required to set a balanced budget in time for the new financial year and in time for council tax billing to be achieved. If the Committee were to decide not to recommend a budget or recommend a budget that was not balanced Council would not be able to accept the proposal. A budget would need to be set and this would happen without the information or guidance from this Committee's work over the past year.

3.13 **Option 2:** The Committee could amend the budget set out in this report but would need to take care that the final recommendation to Council is a balanced budget.

3.14 The Director of Finance and Business Improvement (section 151 Officer) must provide confirmation to Council that "the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise". Care must be taken in amending the budget set out in this report so that the Director of Finance and Business Improvement is able to make the necessary confirmation.

3.15 **Option 3:** the Committee recommend the budget set out in this report, including the proposed council tax charge.

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## **4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.11 Option 3 is the preferred option.

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## **5 RISKS**

5.11 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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## **6 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

6.11 Policy and Resources Committee received an initial report on the MTFS at its meeting on 23 July 2019 and has subsequently received further reports on the development of the budget for 2020/21. Council agreed the MTFS at its meeting on 18 December 2019.

6.12 A Residents' Survey was carried out in Autumn 2019 to obtain their views on the issues to be considered when setting a budget. The findings were reported to Service Committees in January 2020 and formed part of their consideration of the budget proposals.

6.13 Detailed budget proposals were considered by individual Service Committees. The outcomes of this consultation are set out in this report at paragraphs 2.10 to 2.14.

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## **7 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

7.1 The timetable for setting the budget for 2020/21 is set out below.

<b><i>Date</i></b>	<b><i>Meeting</i></b>	<b><i>Action</i></b>
12 February 2020	Policy and Resources Committee	Agree 2020/21 budget proposals for recommendation to Council
26 February 2020	Council	Approve 2020/21 budget

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## **8 REPORT APPENDICES**

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

- Appendix A: Strategic Revenue Projection 2020/21 to 2024/25
  - Appendix B: Budget Savings Proposals 2020/21
  - Appendix C: Revised Estimates for 2019/20 and Draft Budget Estimates for 2020/21
  - Appendix D: Capital Programme 2020/21 to 2024/25
  - Appendix E: Updated Treasury Management Strategy, Investment Strategy and Capital Strategy
  - Appendix F: Statement of General Fund Balances and Earmarked Reserves
  - Appendix G: Updated Medium Term Financial Strategy 2020/21 to 2024/25
  - Appendix H: Parish Tax Bases 2020/21 (Amended)
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## **9 BACKGROUND PAPERS**

There are no background papers.