Appendix A

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2025/26 – 2029/30

CONTENTS

1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

1.1 The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Corporate Strategy over the next five years. The Council's new Corporate Strategy is due to be agreed by Council in February 2025, alongside the MTFS. The Corporate Strategy incorporates four key priorities: a high quality place, adapted for a changing climate; quality homes; resilient communities; and a fairer economy for people and the planet. Further details are set out in **Section 2.**

1.2 The Council's success in delivering the Corporate Strategy depends on a range of financial factors, both external and internal. Accordingly, the MTFS considers both the external economic environment and the Council's own current financial position. The external environment (**Section 3**) is challenging because of low economic growth and the state of the UK's public finances. In assessing the Council's current financial position (**Section 4**), attention is paid to its financial performance, the strength of its balance sheet, and its track record of budget management.

1.3 It is imperative that the MTFS both ensures Maidstone Council's continuing financial resilience and is sufficiently flexible to address the risks that it faces and to accommodate a range of potential scenarios. The risks facing the Council and the different scenarios that have been defined for modelling purposes are described in **Section 5**.

1.4 Detailed planning assumptions for the different scenarios are set out in **Section 6.** The key assumptions concern (a) Council Tax, which is the council's principal source of income, and (b) a range of other locally derived sources of income, including fees and charges and property rentals, which collectively contribute as much again to total revenues as Council Tax. It will be seen that the main drivers of Council Tax income are the growth in the number of households and the amount by which the tax is increased each year, which is subject to a referendum limit, now confirmed as 3% for 2025/26.

1.5 Income assumptions for future years are more speculative, and are heavily dependent on the government's planned re-allocation of local government expenditure on the basis of a new assessment of need and local capacity. This is expected to be unfavourable for Maidstone.

1.6 The MTFS sets out initial financial projections based on these assumptions in **Section 7**. These are based on scenario 4, which assumes that there will be no real terms increase in budgets and the constraints faced by the Council mean that its focus will be on maintaining existing services. The table below shows projections for scenario 4, before taking account of the budget proposals that are due to be considered by PACs, Overview and Scrutiny Committee and Cabinet in January 2024.

Table 1: MTFS Revenue Projections 2025/26 – 2029/30

	25/26	26/27	27/28	28/29	29/30
	£m	**£m**	**£m**	**£m**	**£m**
Total Resources	57.9	59.1	60.1	61.3	62.5
Predicted Expenditure	58.2	61.4	63.5	64.8	66.0
Budget Gap	0.3	2.3	3.4	3.5	3.5
Existing Planned Growth/ (Savings)	0.3	(0.3)	(0.1)	(0.1)	(0.1)
Savings Required	0.6	2.0	3.3	3.4	3.4

It can be seen that in order simply to maintain the existing level of services, there will be a budget gap of £600,000 in 2025/26 on the basis of initial projections. However, in accordance with legislative requirements the Council must set a balanced budget. Accordingly section 7 concludes by setting out a proposed approach which will specifically address the budget gap in 2025/26. The position in future years is still more challenging and is likely to require transformational change in order to deliver the necessary savings.

1.7 The Council's strategic priorities are met not only through day-to-day revenue spending but also through capital investment and the use of one-off resources.

- **Capital investment** relies largely on external borrowing, so in order to service and repay the borrowing, it is essential that expenditure remains affordable and sustainable, in accordance with the CIPFA Prudential Code. As set out in **Section 8** below, funds have been set aside for capital investment, using prudential borrowing. Further funding may be available by taking advantage of opportunities to bid for external funding.

- The Council has benefited in recent years from **one-off or time-limited resources** including the New Homes Bonus, the Kent Business Rates Pool and the Government's Funding Guarantee / Funding Floor. Although welcome, these cannot be relied upon for the medium to long term and so the Council has taken the prudent decision not to build them into its base budget. Instead, they are used to support the Council's strategic priorities. Details are set out in Section 8.

1.8 The MTFS concludes by describing the process of agreeing a budget for 2025/26, including consultation with all relevant stakeholders, in **Section 9.**

2. CORPORATE STRATEGY

2.1 Following local elections in May 2024 and the appointment of a new Administration, a new Corporate Strategy has been developed to take the place of the former Strategic Plan, which was originally adopted by Council in December 2018.

2.2 The Corporate Strategy will incorporate four key priorities:

- a high quality place, adapted for a changing climate;
- quality homes;
- resilient communities;
- a fairer economy for people and the planet.

A high quality place focuses on protecting and enhancing our natural environment, from our urban centre to our rural landscapes and villages, taking action to address pressing environmental challenges such as air pollution and climate change, investing in green infrastructure, improving public spaces and promoting sustainable transport.

Resilient communities will develop with empowered residents, inclusive communities with improved health and wellbeing and access to services. There will be a focus on innovative public engagement activities, health in all policies and implementing community led solutions.

Quality homes will be delivered through enhancing the quality and availability of housing options across the borough, investing in new affordable housing, and raising standards in existing homes, alongside robust homeless prevention strategies to ensure everyone has access to a secure, high quality and affordable home.

A fairer economy for people and the planet will create a balanced sustainable economy that meets everyone's needs without harming the environment. This will be achieved through increasing jobs and business opportunities within our local economies, a thriving cultural community and an increase in recycling rates and a reduction in waste.

2.3 The funding envelope within which these priorities must be delivered is dependent on the Council's own revenue-generating capacity. The Council's day-to-day revenue, which is used to deliver the wide range of services for which it has statutory responsibility, derives principally from Council Tax and a range of other locally generated sources of income, including Parking, Planning Fees and the Council's property portfolio.

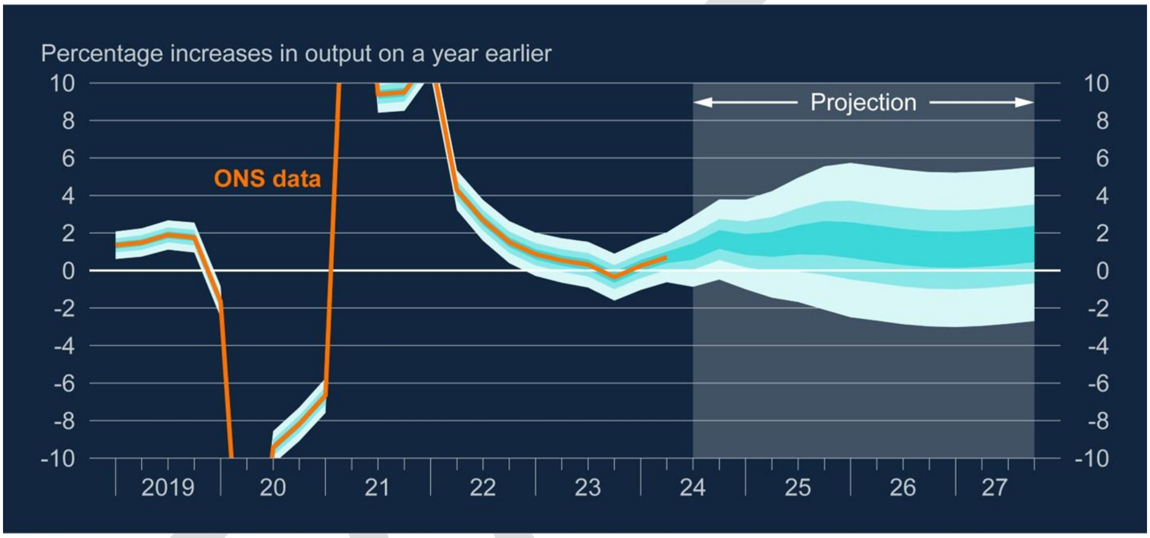
2.4 In addition to the revenue budget, the Corporate Strategy will be delivered through capital and one-off funding. Capital investment has the potential to improve efficiency and drive down revenue costs, eg for temporary accommodation. The ways in which these funding sources help to deliver key elements of the Corporate Strategy such as the quality homes programme are described in section 8 of the MTFS.

3. ECONOMIC ENVIRONMENT

Macro outlook

3.1 The UK economy has recovered from the impact of the Covid pandemic but economists expect future growth to be modest. This continues a trend that dates back to the financial crisis of 2008, during which growth in the UK has been slow by comparison both with the period before 2008 and with that achieved by the other national economies.

Figure 1: GDP growth projection based on market interest rate expectations and government policy measures as announced

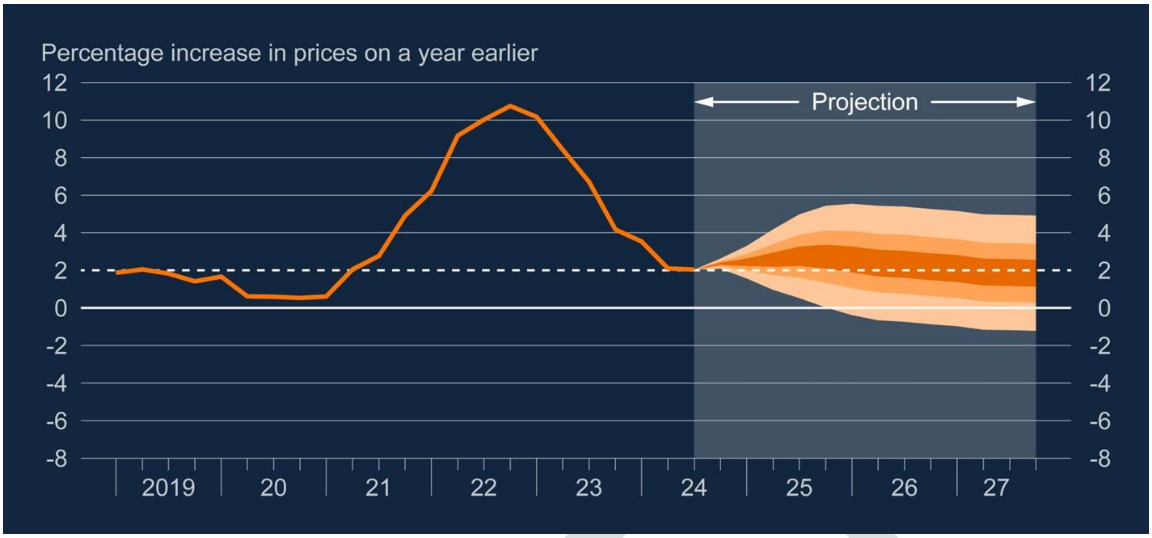


Source: Bank of England Monetary Policy Committee report, November 2024

3.2 Whilst economic growth remains modest, the demand for public services, particularly in the areas of health and social care, is increasing rapidly. This creates pressures on public finances, as described below.

3.3 Inflation has fallen from its post-Covid peak and the Bank of England anticipates that it will now stabilise at around the target level of 2%.

Figure 2: CPI inflation projection based on market interest rate expectations, government policy measures as announced



Source: Bank of England Monetary Policy Committee report, November 2024

3.4 Whilst inflation is projected to remain at around the target level of 2%, Bank of England forecasts have proved consistently over-optimistic in the past and there is a risk that it will prove more difficult to restrain inflation, particularly services inflation, than the Bank anticipates.

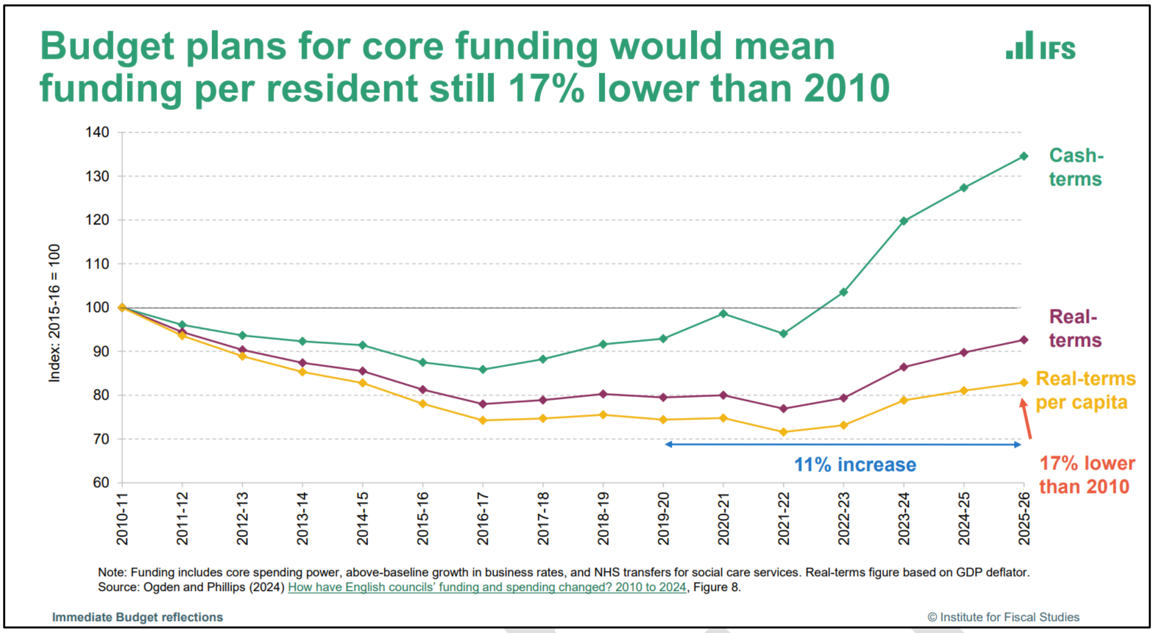
Public Finances

3.5 Slow growth in the broader economy, when combined with increased spending pressures, has compelled the new Labour government to increase taxes. Paul Johnson of the Institute of Fiscal Studies has said: 'Over this decade [the 2020s], tax and spending will increase by a huge 5 per cent of national income . . . it has been made all but inevitable by the combination of high debt and high interest payments, poor growth, demographic change and a continued increase in spending on health and other parts of the welfare state[1]'.

3.6 The spending pressures for the public finances have been felt particularly severely in health and social services, so additional resources have tended to be directed at these areas. Whilst the Chancellor's Autumn 2024 Budget increased core local authority spending by 3.2% in real terms, this was far short of the amount that would have been required to restore spending to 2010 levels.

[1] The Times, 11 November 2024

Figure 3: Local authority core funding 2010 – 2026



Source: Institute for Fiscal Studies, https://ifs.org.uk/publications/immediate-reflections-budget-local-government

3.7 Within the funding allocated for local government in the Autumn 2024 Budget, priority has been given to areas perceived as having the greatest need and the greatest demand for services, with a £600 million 'Recovery Grant' and further grants for Social Care. Maidstone Borough Council will receive very little of this additional funding. However, a minimum funding level has been set for all local authorities, with a guarantee that no authority will see a reduction in their Core Spending Power for 2025/26[2]. This takes the form of a Funding Floor (formerly Funding Guarantee).

Conclusion

3.8 The UK economy faces low growth prospects, so government is compelled to increase taxes just to meet existing spending pressures. These pressures are most acute in health and social services, so these areas have benefited most from what limited budget growth has been available. Within the local authority sector, this has benefited upper tier and unitary authorities rather than district councils like Maidstone. This Council must therefore plan on the assumption that it cannot rely on any additional resources beyond those required to deliver the current level of services.

[2] Local Government Finance Policy Statement 2025/26, 28 November 2024

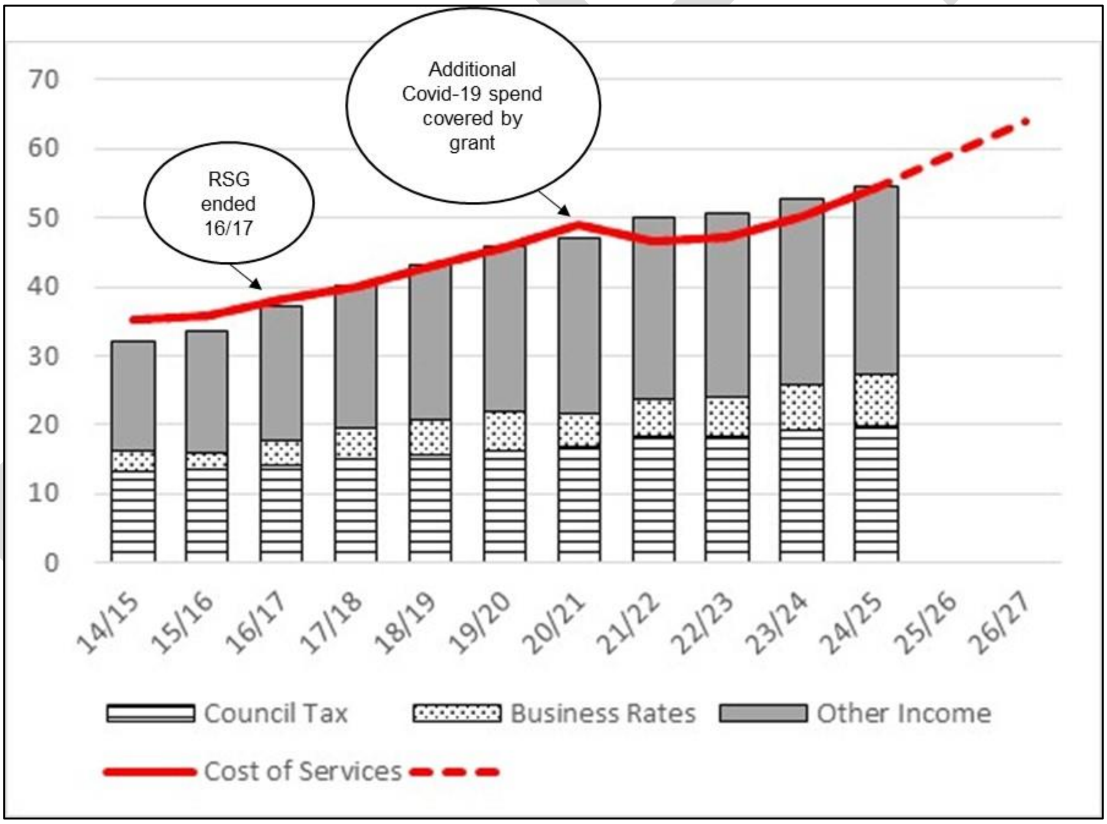
4. CURRENT FINANCIAL POSITION

Income and Expenditure

4.1 Maidstone Borough Council has been able successfully to balance day-to-day income and expenditure over the past ten years. Most of its sources of unringfenced recurring income are locally generated and managed. The Council ceased receiving unallocated direct government support in the form of Revenue Support Grant (RSG) in 2016/17 and relies mainly on Council Tax and a range of other locally generated sources of income, including parking, planning fees and the property portfolio, to fund ongoing revenue expenditure.

4.2 During the pandemic, income fell and expenditure increased, but the consequent budget gap, being the difference between cost of services and aggregate income, was covered with direct government funding. This is illustrated in the graph below.

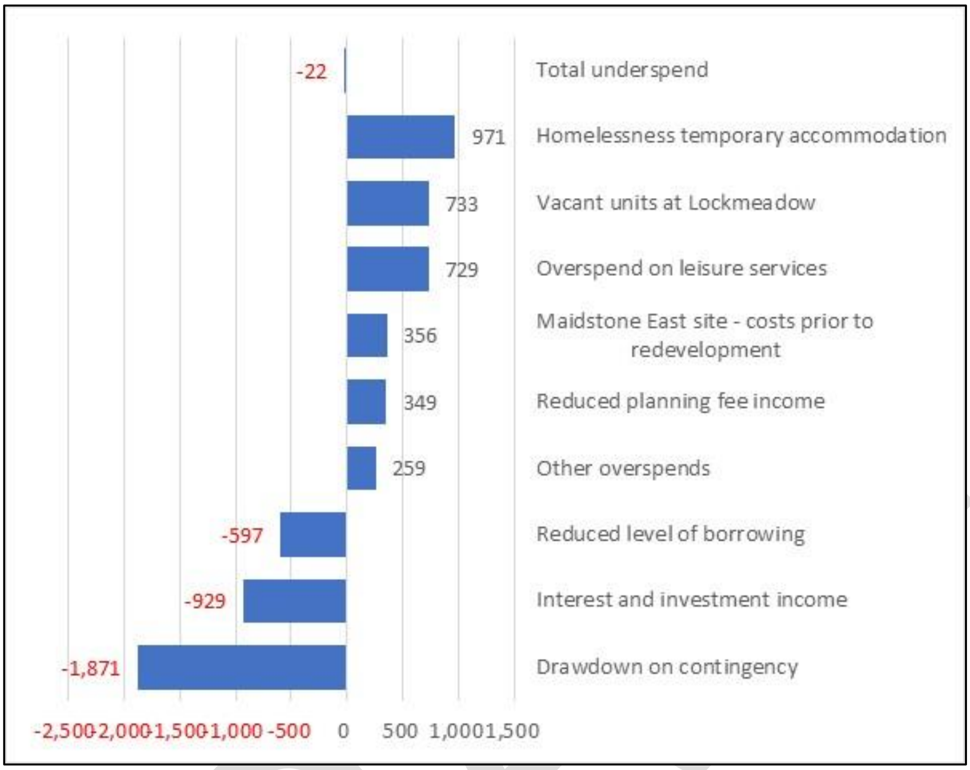
Figure 4: Sources of Council funding



4.3 Note that most of the services delivered by the Council are statutory or have a high statutory element. Costs of these services are likely to continue increasing. Council Tax increases are capped at the referendum limit, and other income increases are subject to a range of constraints including legal (eg where fees are set by statute) and economic (eg rental income). Accordingly, there is little scope for expenditure growth above and beyond that required to deliver the existing level of services.

4.4 Details of the revenue out-turn for 2023/24 are set out below. It can be seen that there was a small underspend of £22,000, achieved by drawing down on contingency in order to offset a number of overspends.

Figure 5: 2023/24 Revenue Out-turn



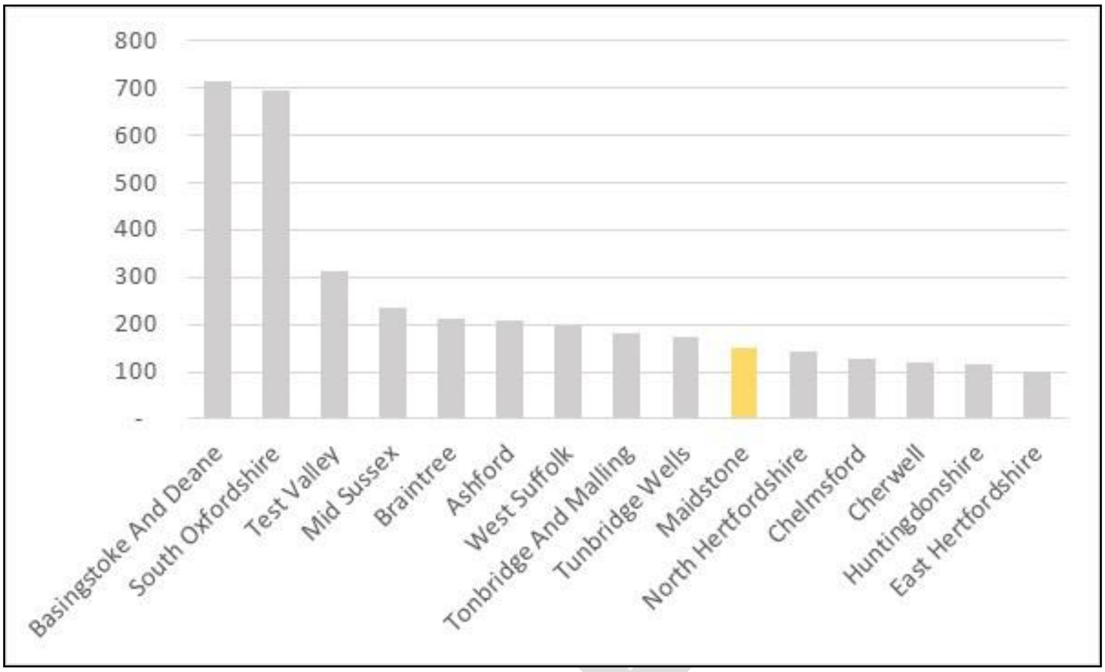
4.5 Whilst use of a contingency is appropriate for dealing with one-off shocks, to the extent that an overspend reflects an underlying budget pressure which will continue into the following year, budget growth will be required. In the case of the cost of temporary accommodation and reduced planning fee income, it is clear that the factors underlying these overspends are long-lasting and the budget will be adjusted accordingly.

Balance Sheet and Reserves

4.6 In light of the narrow margin between income and expenditure, the Council has limited opportunity to accumulate reserves and hence build up a buffer against unforeseen events. As has been seen, central government stepped in to provide the necessary support during the Covid pandemic. Nevertheless, the Council has succeeded through careful financial stewardship in maintaining an adequate, but not excessive, level of reserves. This is essential in order to maintain financial resilience

4.7 A useful point of reference in assessing the level of reserves is provided by comparing it with those held by the Council's nearest neighbours (in terms of the authority's key characteristics).

Figure 6: Ratio of usable reserves to net revenue expenditure as at 31 March 2023 (%)



Source: DLUHC General Fund Revenue Account Outturn RS - Revenue Outturn Summary 2022-23

4.8 The above table shows that Maidstone and all its peers except for East Herts have a ratio of usable reserves to net revenue expenditure greater than 100%.

4.9 This is a secure position, and is in fact common to most District Councils. By comparison, the financial position for Unitary Authorities and Upper Tier Authorities is generally much less secure. The ratio for Kent County Council is 31% and for Medway is 20%.

4.10 Maidstone's ranking is towards the lower end of the scale shown above. However, this should not be a concern to members. In fact, it could be argued that Basingstoke and Deane and South Oxfordshire are holding excessive levels of reserves.

4.11 Reserves are shown below within the context of the council's overall financial position, as represented by its most recent balance sheet (previous year shown for comparative purposes).

Table 2: Maidstone Borough Council balance sheet (unaudited)

31st March 2023 £000		31st March 2024 £000
205,747	Long Term Assets	228,544
31,579	Current Assets	67,627
56,493	Current Liabilities	70,773
23,149	Long Term Liabilities	58,581
157,684	**Net Assets**	**166,817**
15,911	Unallocated General Fund Balance	17,445
19,322	Earmarked General Fund Balance	24,897
1,539	Capital Reserves	214
120,912	Unusable Reserves	124,261
157,684	**Total Reserves**	**166,817**

4.12 The unallocated general fund balance represents the Council's core reserves. It is an essential part of the Council's strategic financial planning, as this amount represents the funds available to address unforeseen financial pressures.

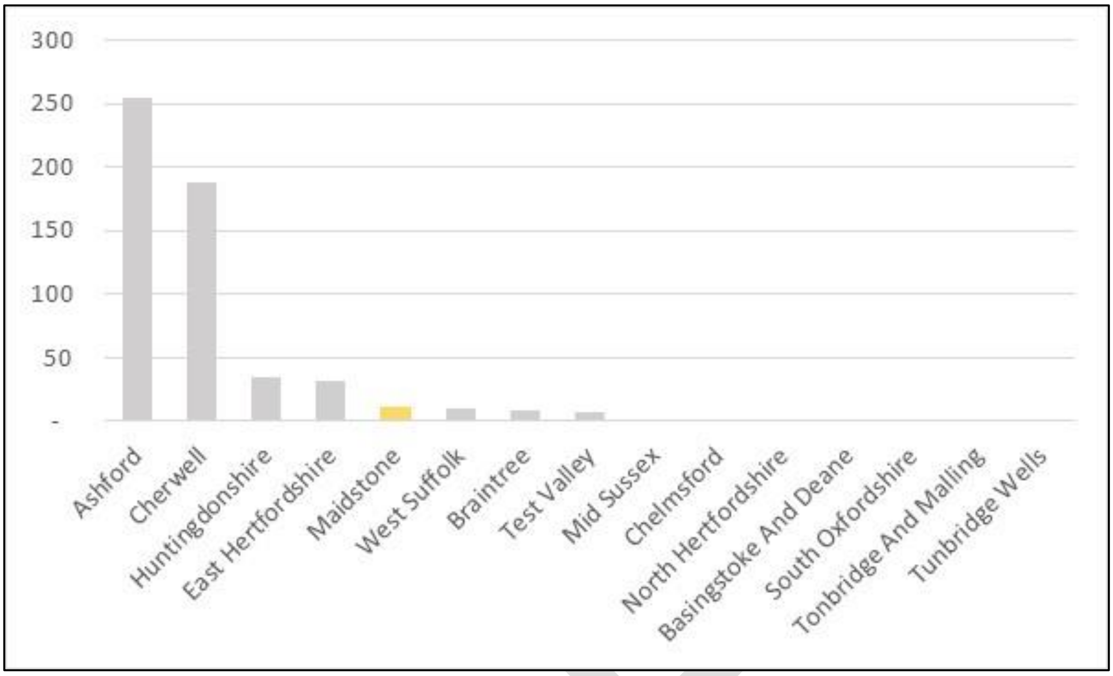
4.13 For local authorities there is no statutory minimum level of unallocated reserves. It is for each Council to take a view on the required level having regard to matters relevant to its local circumstances. CIPFA guidance issued in 2014 states that to assess the adequacy of unallocated general reserves the Chief Financial Officer should take account of the strategic, operational and financial risks facing their authority. The assessment of risks should include external risks, such as natural disasters, as well as internal risks such as the achievement of savings.

4.14 Maidstone Council historically set £2 million as a minimum level for unallocated reserves. In the light of the heightened risk environment facing the Council, it was agreed from 2021/22 that this minimum should be increased to £4 million. In practice, the level of unallocated reserves held is higher, at £17 million, thus providing a reasonable, but not excessive, level of additional assurance.

Debt

4.15 For any organisation, the level of debt is a key indicator. Excessive debt, and the cost of servicing it, can threaten the organisation's sustainability. Until recently, the level of debt at Maidstone was low, as shown in the graph below.

Figure 7: Gross external debt as at 31 March 2023 (£ million)



Source: CIPFA Financial Resilience Index 2022-23

4.16 There is a wide variety in the level of external debt shown in the table above. Maidstone, like most of its peer group, took a very conservative approach to borrowing until recently, so had minimal levels of external debt as at 31 March 2023. By contrast, Cherwell District Council has invested heavily in commercial property, eg in Banbury's Castle Quay Waterfront development. Ashford Borough Council, alone amongst this group of authorities, has a Housing Revenue Account, which accounted as at 31 March 2023 for £125 million of its borrowing.

4.17 The picture for Maidstone will change over the next few years. Debt is due to increase, with £80 million of borrowing being drawn down (£40 million in February 2024, £20 million in February 2025 and £20 million in February 2026) to fund the capital programme. The cost of this debt, at 2.87%, is modest by comparison with prevailing (December 2024) interest levels. So whilst debt levels will increase, it is considered that the increase in debt in the short term is manageable given its relatively low cost and the financial returns assumed in the business case for investment of the debt.

4.18 The overall five year capital programme amounts to £250 million, including £210 million for the housing programme. Additional borrowing, above and beyond the scheduled £80 million, will therefore be required, starting in 2026/27. This is likely to be at a higher cost than existing borrowing, which means that there is a risk of the debt burden becoming unsustainable in the medium term. It is imperative that care is taken to ensure that investment plans continue to demonstrate a clear business case and that the additional cost of debt can be met.

Financial management

4.19 The Council has a strong track record of managing finances within the agreed budgets. Financial management contains a number of elements.

- Officers and members are fully engaged in the annual budget setting process, which means that there is a clear understanding of financial plans and the resulting detailed budgets.

- Detailed financial reports are prepared and used on a monthly basis by managers, and on a quarterly basis by elected members, to monitor performance against the budget. Reports to members are clear, reliable and timely, enabling a clear focus on any areas of variance from the plan.

- Financial reports are complemented by performance indicators, which are reported both at the service level to the wider leadership team, and at a corporate level to members. Member reports on performance indicators are aligned with the financial reports, so that members see a comprehensive picture of how services are performing.

- Financial management and reporting is constantly reviewed to ensure that it is fit for purpose and meets the organisation's requirements. Quarterly financial reports to members have been redesigned over the last two years to make them more user-friendly.

- Where variances arise, prompt action is taken to address them. Action plans are put in place at an early stage if at appears that there is likely to be a budget overspend.

4.20 The Council has a good track record of delivering budget savings, whilst sustaining and investing in services. Savings initiatives are planned so far as possible across the five-year period of the MTFS, rather than the focus being simply on achieving whatever savings are necessary in order to balance the budget for the coming year.

4.21 A common criticism of local authority financial planning is that proposed savings are often over-optimistic and are not based on realistic evidence of what is achievable. The Council aims to mitigate this risk with a robust process for developing budget savings proposals:

- New and updated savings proposals are sought on a regular annual cycle, with Service Managers typically briefed on the savings remit in August/September
- Savings proposals are then developed over a period of around two months
- Savings proposals have to be formally documented and signed off by the Service Head who will be responsible for delivering them.

4.22 Once savings have been built into the budget, their achievement is monitored as part of the regular financial management process described above.

4.23 The Council's MTFS is subject to a high degree of risk and uncertainty. 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 meeting.

4.24 The Council has implemented JCAD risk management software, which allows individual service areas to log and monitor risks. By reviewing risks on a regular basis in this way, it is expected that any major new risks will be identified and appropriate mitigations developed.

Conclusion

4.25 When considering its financial position, the Council can be seen to have adequate reserves in the short term and to be positioned well to manage the financial challenges it will face. The following section considers whether this position is sustainable.

5. RISKS AND SCENARIO PLANNING

5.1 As described in the previous section, budget risks are monitored and reported to members as part of the Council's financial management. Broadly, key budget risk factors for the Council may be summarised as follows.

External

- Increased poverty leads to a further increase in homelessness, which drives up the cost of providing temporary accommodation

- Key components of other income, eg parking fees, property income, are sensitive to the economic environment

- Government policy determines many of the key budget variables (the Council Tax referendum limit, the share of business rates retained at local level and one-off grants, eg New Homes Bonus) so changes in policy will have a significant impact on the Council

- Proposals in the government's Devolution White Paper may affect the future of the council and its neighbours

- Severe financial difficulties faced by Kent County Council impact the council, both through a direct negative impact from cost savings by the county, and through the district having to deal with the consequences of services (eg supported housing) being withdrawn

- Continued high interest rates will impact the Council's ability to deliver its capital programme ambitions

Internal

- The Housebuilding programme and any initiatives emerging from the new Corporate Strategy will place heavy demands on the Council's ability to deliver.

- The Council's capacity to deliver not only the capital programme but also ongoing revenue services depends on being able to attract and retain staff, which may become increasingly difficult in a competitive environment.

Given the range of risks faced by the Council, it is appropriate to model the impact of different scenarios. Following a similar approach to that adopted when developing the current 2024/25 – 2028/29 Medium Term Financial Strategy, the following four scenarios can be sketched out.

External environment	Favourable	**Scenario 1:** **Missed opportunities** Government allows greater flexibility to local authorities but Council fails to take full advantage through lack of capacity	**Scenario 2:** **Successful delivery** Council takes full advantage of greater flexibilities and improving income streams to re-invest for the benefit of the borough
	Adverse	**Scenario 4:** **Maintain basic services** Government maintains tight limits on local government spending. Lack of capacity means that Council has to focus on delivering statutory services only	**Scenario 3:** **Focus on efficiency** Council manages tight financial constraints by delivering services more efficiently, leaving capacity for added value strategic initiatives
		Adverse	Favourable
		Internal capability	

5.2 Scenario 4 is the most challenging of those sketched out above, as it represents a combination of a difficult external environment, coupled with a lack of capacity to do anything other than maintain service levels in line with limited resources.

5.3 Strategic revenue projections have been prepared for each of the above four scenarios and are used in developing the 2025/26 – 2029/30 Medium Term Financial Strategy.

5.4 The next section sets out planning assumptions under each of the above scenarios.

6. PLANNING ASSUMPTIONS

6.1 In drawing up financial projections, assumptions need to be made about what future scenarios might mean. The key dimensions are:

(a) Rate of housing growth
(b) Council Tax referendum limit
(c) Rate of growth/decrease in business rates income
(d) Rate of growth/decrease in other income
(e) Rate of growth/decrease in cost of services.

Each of these is considered in more detail below.

Rate of housing growth

6.2 Housing growth has a direct impact on Council revenues by generating more Council Tax income. Council Tax income depends on the tax base, which is a value derived from the number of chargeable residential properties within the borough and their band, based on valuation ranges, adjusted by all discounts and exemptions.

6.3 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. However, the rate of growth has slowed in 2024 to just 1%. See table below:

Table 3: Number of Dwellings in Maidstone

	2020	2021	2022	2023	2024
Number of dwellings	73,125	75,034	76,351	77,522	78,348
% increase compared with previous year	1.68%	2.61%	1.76%	1.53%	1.07%

Note: Number of dwellings is reported each year based on the position shown on the valuation list in September.

6.4 The Council Tax base is also affected by collection rates and the number of households benefitting from the Council Tax Reduction Scheme. Typically these factors do not vary significantly between years but in the event of a major downturn in the economy, collection rates could be expected to fall and more households would be eligible for the Council Tax Reduction Scheme.

6.5 For the past ten years, Kent County Council has provided an incentive for district councils to collect Council Tax, given that it receives over 70% of the total amount collected and benefits from any enhanced collection effort. These incentive payments are targeted at areas of tax collection that are particularly resource intensive, namely households on Council Tax Support and Empty Properties.

6.6 In its draft budget proposals for 2025/26, Kent County Council plans to remove these payments, which will reduce the resources available for collection, and have a consequent impact on performance. The calculation of the Council Tax base for 2025/26 therefore assumes a higher level of bad debts, equivalent to 1% of total Council Tax income, offsetting the 1% gain from the increase in the number of households. Assumptions for all years and scenarios are set out below.

Council Tax base growth assumptions					
	25/26	26/27	27/28	28/29	29/30
Scenario 1 – Missed opportunities	0.0%	1.5%	1.5%	1.5%	1.5%
Scenario 2 – Successful delivery	0.0%	1.5%	1.5%	1.5%	1.5%
Scenario 3 – Focus on efficiency	0.0%	1.0%	1.0%	1.0%	1.0%
Scenario 4 – Maintain basic services	0.0%	1.0%	1.0%	1.0%	1.0%

Council Tax referendum limit

6.7 The rate of increase in the Council Tax is subject to a referendum limit, which was 3% in 2024/25. The Local Government Finance Policy Statement 2025/26, published on 28 November 2024, again proposes a referendum limit for district councils of 3%.

6.8 In justifying this continuity of policy, notwithstanding the severe spending pressures faced by many councils, the statement says that the government is 'committed to protecting local taxpayers from excessive council tax increases'. This approach indicates that the new Labour government is no more willing than its Conservative predecessors to give local authorities greater fiscal autonomy.

6.9 <u>A key MTFS assumption is that the Council increases Council Tax by the maximum permitted by the referendum limit.</u> The rationale for this approach is that:

- pressures on the Council's budget mean that even a marginal difference in Council Tax income is of value;
- the referendum limit might revert to a lower level in later years;
- because the starting point for calculating the referendum limit in any given year is the previous year's Council Tax, agreeing a lower increase reduces the Council's room for manoeuvre in later years.

6.10 The following table sets out future growth assumptions for Council Tax levels in each scenario. Scenarios 1 and 2 assume that the referendum limit will remain at 3% even if inflation falls. The more pessimistic scenarios of 3 and 4 assume that the government will reduce the referendum limit if inflation falls to its target level of 2%.

Council Tax increase assumptions					
	25/26	26/27	27/28	28/29	29/30
Scenario 1 – Missed opportunities	3.0%	3.0%	3.0%	3.0%	3.0%
Scenario 2 – Successful delivery	3.0%	3.0%	3.0%	3.0%	3.0%
Scenario 3 – Focus on efficiency	3.0%	3.0%	2.0%	2.0%	2.0%
Scenario 4 – Maintain basic services	3.0%	3.0%	2.0%	2.0%	2.0%

Business Rates Income

6.11 Under the current business rates regime, local government in aggregate retains 50% of business rates income. However, most of the 50% share collected locally is lost to Maidstone, because it is redistributed to other authorities through a system of tariffs and top-ups.

Table 4: Baseline Business Rates Income 2024/25

	£000	%
Baseline Business Rates income	65,278	100
Government share	-32,639	-50
Kent County Council / Kent Fire & Rescue Authority	-6,528	-10
Government tariff	-22,579	-35
Baseline Business Rates income retained by MBC	3,532	-5

The baseline described above was set in 2013/14 and is uplifted each year by inflation. To the extent that business rates income exceeds the baseline, this growth element is retained locally, subject to a levy of 50% payable to central government by tariff authorities like Maidstone. In 2024/25 business rates growth is estimated to amount to around £2 million (net of levy).

6.12 Note that the baseline is due to be reset by central government in 2026/27. It remains to be seen how much of the growth that has accumulated to date will be retained locally in future. The 'growth' element cannot therefore be relied upon beyond 2025/26.

6.13 The Council has been able to minimise the levy payable on business rates growth through its membership of the Kent Business Rates Pool. This is because the levy payable by some pool members (district councils) is offset against the top-up received by the major preceptors (Kent County Council and Kent Fire and Rescue).

6.14 Business Rates Pool income is allocated, in accordance with the Pool Memorandum of Understanding between Kent authorities, as follows.

Maidstone Borough Council – used for specific projects that form part of the Economic Development strategy. £275,000 of this amount is top-sliced in the budget for ED salaries and spatial planning.	30%

Growth Fund – In Maidstone this is split 50:50 between MBC and Kent County Council for the regeneration of the Town Centre and is deployed at Maidstone East and Sessions House / Invicta House respectively.	30%
Kent County Council	30%
Contingency - To compensate Kent local authorities who do not benefit directly from pool membership (eg because their business rates growth is lower than the baseline)	10%

6.15 Income from the Kent Business Rates pool is not built into the base budget and is instead earmarked for the purposes shown above (economic development and Maidstone East). It is estimated that the respective 30% shares for economic development and Maidstone East will amount to around £500,000 each in 2024/25.

6.16 It is important to note that the business rates reset expected in 2026/27 will have the effect of eliminating the notional business rates growth that is redistributed through the pool, so it is appropriate to treat pool income as one-off in nature.

6.17 There are a number of factors affecting the future pattern of business rates income:

- Government uses the share of business rates that local authorities are allowed to retain as a mechanism for directing resources towards the areas of perceived need through the tariff mechanism (hence Maidstone, as a relatively prosperous area, only retaining 5% of baseline business rates). This resource allocation has remained broadly unchanged since 2014, when the current local government funding system was introduced, but a 'fair funding review', which will update the resource allocation, has been mooted for several years. The government has confirmed that this will be implemented in 2026/27.

- The government share of business rates and the tariff (see Table 4 above) are fixed £ amounts, based on a predetermined business rates baseline. This has benefited the Council over the past ten years, as the rate of business rates growth has been greater locally than general price inflation, and the Council has benefited from this excess growth. However, the reverse could be the case if there is a downturn in total business rates income.

- As part of any change to the funding system, the business rates baseline will be adjusted. This means that the growth above the baseline that has accumulated over the past ten years, which has hitherto been retained locally, could be lost.

6.18 These factors are generally likely to have an adverse impact on business rates income. However, the government has indicated that changes such as implementation of the fair funding review and a revision of the baseline would be implemented over a period of time, dampening any immediate adverse impact.

Business rates growth assumptions					
	25/26	26/27	27/28	28/29	29/30
Scenario 1 – Missed opportunities	2.0%	0.0%	1.0%	2.0%	3.0%
Scenario 2 – Successful delivery	2.0%	0.0%	1.0%	2.0%	3.0%
Scenario 3 – Focus on efficiency	2.0%	-1.0%	-1.0%	-1.0%	2.0%
Scenario 4 – Maintain basic services	2.0%	-1.0%	-1.0%	-1.0%	2.0%

Note: Because of the several factors influencing the Council's share of business rates income, as described above, the aggregate percentage growth figures shown above represent the cumulative impact of a number of different variables.

Other income

6.19 Other income, in aggregate, is a major contributor to the Council's total revenue budget. The main components of other income are set out below:

Table 5: Projected Other Income 2024/25

	£ million
Fees and charges	11.0
Residential and commercial property rental income	7.2
Shared services trading income	3.9
Other income	5.1
TOTAL	**27.2**

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. However, some fees and charges are set by central government and are not necessarily increased annually. Rents may only change at the point of periodic rent reviews.

6.20 Future growth assumptions for each scenario are set out below. A minimalist approach to income generation (scenarios 1 and 4) would simply see income increase in line with expenditure, albeit that income increases will lag behind expenditure increases. A more optimistic position (scenarios 2 and 3) would see the Council generating real growth in income above and beyond the level of price inflation.

Other income growth assumptions					
	25/26	26/27	27/28	28/29	29/30
Scenario 1 – Missed opportunities	2.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Successful delivery	2.0%	3.0%	4.0%	5.0%	5.0%
Scenario 3 – Focus on efficiency	2.0%	3.0%	4.0%	5.0%	5.0%
Scenario 4 – Maintain basic services	2.0%	2.0%	2.0%	2.0%	2.0%

Cost of services

6.21 The cost of services is subject to inflation. Salaries account for around 50% of total input costs, and market pressures are likely to mean that salary inflation will be higher than CPI inflation. In addition, the award of annual increments for staff means a further 1% increase in salary costs above and beyond normal cost of living increases. Many other costs, in particular contract costs, are directly linked to inflation indices.

6.22 A default set of assumptions for growth in the cost of services would link them to the Bank of England's inflation projections. However, the Council has the potential to drive down costs, both through transforming services in order to achieve productivity improvements and through capital investment. For example, investment in housing will reduce the cost of providing temporary accommodation. This is reflected in lower cost growth as shown for scenarios 2 and 3.

Cost of services growth assumptions					
	25/26	26/27	27/28	28/29	29/30
Scenario 1 – Missed opportunities	3.5%	3.5%	2.5%	2.5%	2.5%
Scenario 2 – Successful delivery	3.0%	2.5%	2.0%	1.5%	1.0%
Scenario 3 – Focus on efficiency	3.0%	2.5%	2.0%	1.5%	1.0%
Scenario 4 – Maintain basic services	3.5%	3.5%	2.5%	2.5%	2.5%

Note: Because of the several elements within cost of services (salaries, contract costs, utilities), the aggregate percentage growth figures shown above represent a weighted average of a number of different figures. For the purposes of detailed budget planning, a more granular approach is taken to forecasting budget growth, and specific percentages are applied to the different categories within cost of services.

6.23 Where the rate of inflation applied is materially different to the figures shown above, and the impact on the budget is significant, details are provided as part of the budget proposals submitted to members for consideration and approval (for example, where the impact of inflation on a major contract is significant).

6.24 The following section of the MTFS provides revenue projections, based on the assumptions set out above.

7. REVENUE PROJECTIONS

7.1 Strategic revenue projections for scenario 4 are summarised in table 7 below. In light of the many uncertainties around future funding, it is important to note that projections like these can only represent a 'best estimate' of what will happen.

Table 6: MTFS Revenue Projections 2025/26-2029/30

	25/26	26/27	27/28	28/29	29/30
	£m	**£m**	**£m**	**£m**	**£m**
Total Resources	57.9	59.1	60.1	61.3	62.5
Predicted Expenditure	58.2	61.4	63.5	64.8	66.0
Budget Gap	0.3	2.3	3.4	3.5	3.5
Existing Planned Growth/ (Savings)	0.3	(0.3)	(0.1)	(0.1)	(0.1)
Savings Required	0.6	2.0	3.3	3.4	3.4

Approach to balancing the budget

7.2 The immediate priority in setting a balanced budget for 2025/26 has been to close the budget gap of £600,000. In line with the Council's usual annual budget setting process, savings proposals have been sought from service managers. Whilst individual proposals may not amount to significant sums, in aggregate they can contribute substantially to meeting the deficit.

7.3 The budget process has also sought to capture details of expected pressures, such as the cost of temporary accommodation and shortfalls in income, which have materialised in 2024/25 and are expected to continue, as well as budget growth in order to meet Corporate Strategy priorities.

7.4 Even if the budget for 2025/26 is balanced, it can be seen from the table above that savings, or increased income on a much greater scale, will be required in subsequent years. Assuming that the projections remain broadly unchanged, this will demand a more thoroughgoing review of Council budgets and transformation of Council services in order to deliver the necessary savings.

8. CAPITAL INVESTMENT AND USE OF ONE-OFF RESOURCES

Capital Programme

8.1 The capital programme plays a vital part in delivering the Council's Corporate Strategy, since long term investment is required to deliver many of the Council's priorities.

8.2 Capital investment relies on borrowing. CIPFA's Prudential Code requires that any borrowing be prudent and sustainable, which means that the Council must have a plan for servicing and repaying the borrowing. In the case of capital expenditure on income-generating assets, such as new housing, the business case for the investment must show an investment return that will allow the borrowing to be serviced and ultimately repaid. In the case of non-income generating investment, for example measures to meet health and safety requirements, provision will need to be built into the strategic revenue projections for the cost of the borrowing. To the extent that this creates a budget gap in future years, the Council must have a credible plan for addressing the gap.

8.3 There are a number of risks associated with the capital programme which potentially will also impact the revenue account, for example if capital expenditure is abortive or leads to the write-down of capital investments:

- Construction price
- Contractor failure / liquidation
- Availability / cost of finance (currently the Council has arranged £80 million of funding, but the availability and cost of finance when this is exhausted is not known).

8.4 The Council's current five year capital programme, as agreed in February 2024, is shown below.

Table 7: Capital Programme 2024/25 – 2028/29

	24/25	25/26	26/27	27/28	28/29	Total
	£000	£000	£000	£000	£000	£000
New Housing (gross)	52,161	74,601	51,495	26,278	22,269	226,804
Purchases for TA	20,000	0	0	0	0	20,000
Disabled Facilities	800	800	800	800	800	4,000
Infrastructure Delivery	1,000	1,000	1,000	1,000	1,000	5,000
New Leisure Centre	500	500	2,000	15,000	29,000	47,000
Corporate Property Acquisitions	2,500	2,500	2,500	2,500	2,500	12,500
Biodiversity & Climate Change	5,542	2,616	2,493	1,641	1,075	13,367
Other	13,158	4,534	2,515	2,123	2,927	25,257
Total	**95,661**	**86,551**	**62,803**	**49,342**	**59,571**	**353,928**

8.5 In practice, the housing programme is not being delivered as quickly as anticipated when the above budget was agreed by Council. Taking account of other capital schemes that have slipped, it is now anticipated that spend over the five year period will be in the region of £250 million.

8.6 The Capital Programme is a rolling programme. As part of the annual budget process, officers update the programme based on latest information about the phasing of investment plans and on new corporate priorities. Details of the Capital Programme as shown above will be updated accordingly.

8.7 In light of the increased cost of borrowing (noted in 4.18 above) the profile of spending in the next iteration of the capital programme, for the five years commencing 2025/26, will be adjusted to accommodate affordability constraints.

Housing Investment Fund

8.8 The biggest element of the capital programme is the housing programme, which is designed to address the corporate priority of delivering quality homes. As the housing is for rent at social or affordable levels, the necessary investment cannot be justified under the prudential borrowing rules. Instead, an element of subsidy is required, both from external sources (Homes England) and the Council's own revenue expenditure.

8.9 It has been assumed for planning purposes that a capital sum of £50,000 per unit must be set aside from revenue expenditure for each completed unit of social/affordable housing. This amount will fund the deficit that would otherwise arise from charging a lower than market rent on each property. Assuming that the Council establishes a Housing Revenue Account, as it is currently required to do when it has delivered 200 units of social/affordable housing, it will transfer units into the HRA net of this subsidy in order to ensure that the HRA does not incur deficits.

8.10 In anticipation of these subsidy payments crystallising at the point of housing delivery, the Council has started to set aside the necessary funds. It has been possible to do this because of the government's continued deployment of one-off resources each year to local authorities in the form of New Homes Bonus and the Funding Guarantee. Starting in 2022/23, Council has agreed each year to transfer some or all of these grants to a Housing Investment Fund. As a result, the balance on the Housing Investment Fund as at 31 March 2025 will amount to £12.276 million. This amount would notionally provide the necessary subsidy for 245 new homes, using the above-mentioned estimate of £50,000 per unit.

Use of One-Off Resources

8.11 The Housing Investment Fund is an example of how the Council delivers its strategic priorities by utilising one-off resources. However, in order to do this, ongoing services need to be funded without recourse to one-off or time-limited resources like New Homes Bonus or the Funding Guarantee. It is a key principle of the MTFS that one-off or time-limited resources are not built into the base budget. This approach is both prudent and provides an opportunity to deliver the Council's strategic priorities.

8.12 Income from the Kent Business Rates Pool (see paragraph 6.13 above) is likewise treated as one-off in nature and is earmarked for economic development and the Maidstone East development.

8.13 Council will need to determine, in the light of the availability of such funding in 2025/26, how much to deploy for the Housing Investment Fund and how much to ringfence for other purposes that serve its strategic priorities.

9. CONSULTATION AND NEXT STEPS

9.1 Each year the Council carries out consultation as part of the development of the MTFS. The budget survey has been carried out and the results of the survey have been considered as part of the update on the MTFS to Policy Advisory Committees in December 2024.

9.2 Consultation with members will take place in January 2025 on detailed revenue budget proposals. Individual Policy Advisory Committees will consider the budget proposals relating to the services within their areas of responsibility, and Overview and Scrutiny Committee and Cabinet will consider the budget proposals for the Council as a whole.

9.3 Proposed fees and charges for 2025/26 were considered by the Policy Advisory Committees and Cabinet in December 2024; capital budget proposals will be considered by the PACs, Overview and Scrutiny Committee and Cabinet in January 2025. The final budget will be presented to Council on the 19 February 2025.