

MAIDSTONE BOROUGH COUNCIL

RECORD OF RECOMMENDATION OF THE CABINET

TO COUNCIL

Recommendation Made: 9 February 2011

**BUDGET STRATEGY – CORPORATE REVENUE & CAPITAL BUDGET
2011/12 ONWARDS**

Issue for Decision

To consider the proposed Revenue and Capital Budgets for all portfolios for 2011/12, including service savings and growth previously agreed, in accordance with the agreed budget strategy and to consider the proposals for 2011/12 in the context of the draft Medium Term Financial Strategy and the Medium Term Financial Projection.

Recommendations Made

1. That the revised revenue estimates be agreed as set out in **Appendix A** (circulated separately).
2. That the minimum level of General Fund Balances be set at £2m for 2011/12.
3. That the proposed Council Tax of £222.39 at Band D for 2011/12 (a freeze at 2010/11 values) be agreed.
4. That the revenue estimates for 2011/12 incorporating the growth and savings items set out in **Appendix A** be agreed.
5. That the Statement of Reserves and Balances as set out in **Appendix A** of the Report of Management Team, be agreed.
6. That the medium term Capital Programme, as set out in **Appendix A** be agreed.
7. That the funding of the Capital Programme as set out in **Appendix A**, noting that the funding is dependent upon the delivery of an assumed level of additional capital resources be agreed.
8. That the Medium Term Financial Strategy as set out in **Appendix A** be agreed.
9. That the Medium Term Financial Projection, as set out in **Appendix A** as the basis for future financial planning be endorsed.

10. That it be noted that, at the meeting of the General Purposes Group on 9th December 2010, the Council calculated its Council Tax base for the year 2011/12 in accordance with regulations made under Section 33 (5) of the Local Government Finance Act 1992, as 60,303.1 being the amount calculated by the Council in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) regulations 1992.
11. That it be noted that, as detailed in **Appendix B**, the Council Tax Base for each of the Parish Areas, calculated in accordance with Regulation 6 of the Regulations, are the amounts of its Council Tax Base for the year for dwellings in those parts of its area to which a special item relates (Parish precepts).
12. That the following amounts now be calculated by the Council for the year 2011/12 in accordance with Section 32-36 of the Local Government Finance Act 1992:-
 - (a) £91,364,135 being the aggregate of the amounts which the Council estimates for its items set out in Section 32 (2) (a) to (e) of the Act;
 - (b) £70,412,489 being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (3) (a) to (c) of the Act;
 - (c) £20,951,646 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council, in accordance with Section 32 (4) of the Act as its budget requirement for year;
 - (d) £6,496,699 being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed Non Domestic Rates and Revenue Support Grant, increased by the amount which the Council estimates will be transferred in the year from its Collection Fund to its General Fund in accordance with Section 97 (3) of the Local Government Finance Act 1988 (Council Tax Surplus) and increased by the amount which the Council estimates will be transferred from its Collection Fund to its General Fund, pursuant to the Collection Fund (Community Charges) directions under Section 98(4) of the Local Government Finance Act 1988 (Community Charge Surplus) and reduced by the amount representing the authority's contribution to Council Tax benefit resulting from an increase in its Council Tax calculated in accordance with the Collection Fund (General) (England) Directions 2000, the Collection Fund (Council Tax Benefit) (England) Directions 2000 and the Local Authorities (Alteration of Requisite Calculations) (England) Regulations 2000;
 - (e) £239.70 being the amount at (c) above, less the amount at (d) above, all divided by the amount at 10 above, calculated by the Council, in accordance with Section 33 (1) of the Act, as the basic

amount of its Council Tax for the year;

- (f) £1,044,136 being the aggregate amount of all special items referred to in Section 34 (1) of the Act as detailed in **Appendix B**;
- (g) £222.39 being the amount at (e) above, less the result given by dividing the amount at (f) above by the amount at 10 above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates;
- (h) As detailed in **Appendix C**, being the amounts given by adding to the amounts at (g) above, the amounts of the special item(s) relating to dwellings in those parts of the Council's area mentioned in **Appendix B**, divided in each case by the amount at 10 above, calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its Council Tax (detailed in Band D) for the year for dwellings in those parts of its area to which one or more special items relates;
- (i) As detailed in **Appendix C**, being the amounts given by multiplying the amounts at (g) and (h) above, by the number which, in the proportion set out in Section (5) (1) of the Act, is applicable to dwellings listed in a particular valuation band 'D', calculated by the Council, in accordance with Section 36 (1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

13. That it be noted that for the year 2011/12 Kent County Council, the Kent Police Authority and the Kent and Medway Towns Fire Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

<u>Variation Bands</u>	<u>KCC</u> £	<u>KPA</u> £	<u>KMTFA</u> £
A	698.52	92.45	45.30
B	814.94	107.86	52.85
C	931.36	123.27	60.40
D	1047.78	138.68	67.95
E	1280.62	169.50	83.05
F	1513.46	200.32	98.15
G	1746.30	231.13	113.25
H	2095.56	277.36	135.90

14. That, having calculated the aggregate in each case of the amounts at 21 (i), and 22 above, the Council, in accordance with Section 30 (2) of the Local Government Finance Act 1992, hereby sets out in **Appendix D**, the amounts of Council Tax for the year 2011/12 for each of the categories of dwellings shown.

Reasons for Recommendation

At the July meeting, Cabinet considered the initial projection for 2011/12 onwards and agreed the following:

- a) That for planning purposes, the Council Tax increase for 2011/12 and future years be set at 2.5% to inform the strategic projections provided in Appendix F of the report of Management Team;
- b) That the scenario to be adopted is the "most likely" as outlined in the strategic projections in the report of Management Team;
- c) That the extent of the Capital Programme for 2011/12 onwards be noted;

The initial projection was selected by Cabinet as the most likely of three scenarios. The key assumptions from that scenario were:

- a) An inflation rate of 2% per annum over the period, but dropping to 1% in years 2 and 3;
- b) Anticipated grant reductions of £3.2m or 32% over four years. This was assumed to be evenly spread over the four years;
- c) Additional resources would be required for a number of initiatives including the Local Development Framework, the homelessness strategy and the leisure centre;
- d) A continuation of the annual increase in the national concessionary fares scheme, to facilitate transitional costs of the transfer of the scheme to KCC;
- e) The use of all available capital receipts to fund the capital programme, reducing the level of investment income;
- f) A need to borrow up to £2.0m to finance capital expenditure, creating a need for revenue resources to service the debt;
- g) That the current policy to maintain a minimum balance of 10% of net revenue spend is maintained;
- h) That future Council Tax increases be equivalent to the 2010/11 increase for the purpose of developing the strategy;
- i) That a 0.5% increase in the Council Tax Base be assumed;

A number of risks were identified as part of the initial projection as follows:

- a) The uncertainty surrounding the spending review and its effect upon the formula grant assumptions made in the strategy;
- b) The potential non-delivery of the capital receipts from the sale of assets assumed during the programme period, leading to the possible need for

additional borrowing to finance the capital programme.

- c) The potential future loss of Homes and Community Agency (HCA) grant aid to the Council's capital programme following the intensive investment programme since 2008/09.

Following these decisions a further report to agree the approach to budget consultation for 2010/11, was approved by Cabinet.

At its meeting on 22 December 2010, Cabinet considered the latest information relating to the budget strategy for 2011/12 onwards and agreed the following as the basis of formal consultation with Corporate Services Overview & Scrutiny Committee:

- a) That a provisional spending level of £20.21 million for 2011/12 and a Council Tax freeze in line with the Government's proposal be agreed;
- b) That working balances be set at £2.3 million at this time and to monitor this level as part of the standard budget monitoring during 2011/12;
- c) That the draft medium term financial strategy as set out in Appendix G of the report of Management Team and its connection to the draft strategic plan be noted;
- d) That the results of the budget consultation be noted;
- e) That the changes to the budget pressures as set out in the report be agreed;
- f) That the revised strategic projection, as set out in Appendix A of the report of Management Team be agreed;
- g) That payment by annual instalment of the Council's contribution to fund the pension fund deficit for the three years 2011/12 to 2013/14 be agreed;
- h) That savings identified in Appendix B of the report of Management Team be agreed;
- i) That the proposed additional use of balances, as detailed in Appendix D of the report of Management Team, be agreed;
- j) That the provisional Capital Programme, as detailed in Appendix C of the report of Management Team, be agreed.

The Budget Strategy has been developed in parallel with the Cabinet's consideration of a number of other plans. It is the intention of the Budget Strategy to address the financial consequences of the government's actions to reduce the budget deficit in a sustainable manner. This has required a significant level of budget savings over the five years of the medium term financial strategy. However the proposals in the report of the Head of Finance and Customer Services delivered a balanced budget without the use of balances to finance long term commitments. In particular the Budget Strategy

incorporates the following:

- a) The Strategic Plan/The Sustainable Community Strategy – the budget strategy has been developed in parallel with the revisions to the strategic plan. The medium term financial strategy has been produced to ensure the efficient use of the Council’s resources in delivering the strategic objectives.
- b) The People Strategy – budget provision is included for employee costs. Some changes to the total reward package have been made in order to meet the Council’s budget pressures. Provision to meet the conditions of the Government’s proposed pay freeze has also been included.
- c) The Asset Management Strategy – the budget requirements identified in the strategy have been previously included within the budget strategy and have been maintained for 2011/12 onwards. The asset management strategy recognises the pressure on the capital programme from the need for future funding and assesses options for the appropriate utilisation of assets, the pressures upon the capital programme are considered as a complete package and not as individual schemes.
- d) ICT Strategy – the development of this strategy has been supported by the work carried out this year to combine development of the strategic plan and medium term financial strategy. Resources for this strategy are limited due to available funding however resources for invest to save developments in ICT remain available and the ICT steering group promote projects of this nature.
- e) Strategic Risk Register – the strategic risks are reviewed regularly by Audit Committee and Cabinet. The responses to the risks are, where appropriate, incorporated into the budget strategy.
- f) Other Strategies – appropriate resources to aid various other strategies are incorporated into the budget strategy. These include strategies such as Climate Change, Equalities, Regeneration and Integrated Transport.

Since Cabinet considered the budget strategy in December 2010, economic indicators have been updated and the changes since the December report are given below:

- a) Consumer price index inflation rose to 3.7% in December 2010 (3.2% in October 2010);
- b) Retail price index inflation rose to 4.8% in December 2010 (4.5% in October 2010);
- c) Growth for the final quarter of 2010 contracted by 0.5% (an increase of 1.8% was seen in quarter three);
- d) The latest unemployment rate for November 2010 is 7.9% (7.7% in September 2010);

- e) The Monetary Policy Committee has continued to hold the base rate at 0.5% for the period.

The continuation of inflation at levels higher than the target rate of 2% was identified as a risk of the budget strategy at this time last year. These high levels coupled with increases in unemployment and a lack of certainty around growth makes predictions for 2011/12 and beyond difficult and this is recognised in the risk assessment of the medium term financial strategy.

Revenue Estimates

Appendix A sets out the revised revenue estimates for the current year, compared to the original estimates, and proposals for 2011/12 as well as the budget summaries for each Cabinet Members' portfolio of services.

Revised Estimate 2010/11

The revised revenue estimate in Appendix A gives a value of £25.39m which compares to an original estimate of £23.39m. This will require an additional £2m contribution from balances. This contribution equates to the value of the decision made by Cabinet in June 2010 to carry forward resources from 2009/10 of £2m.

Original Estimate 2011/12

The estimate proposed for 2011/12 is given at Appendix A. The estimate shows a budgeted cost of services of £20.81m. After planned use of balances totalling £0.90m the budget requirement for 2011/12 will be £19.91m.

The budget has been based on a number of initiatives completed during the year. These include:

- a) A new strategic plan which has been developed to achieve a smaller number of key outcomes that are focused on the Council's three priorities. This has enabled a clearer focus for the medium term financial strategy.
- b) A budget consultation exercise to identify public opinion on the importance of services and Cabinet's initial focus for budget savings.
- c) A longer term focus for the development of efficiencies and budget savings to align the medium term financial strategy with the Government's strategy to reduce the budget deficit.

Appendix A sets out details of the items of growth that are incorporated in the proposed estimate and the details of the savings that are incorporated in the proposed estimate.

Statement of Reserves and Balances

Appendix A contains a statement of the General Fund Balances. The statement identifies the use of balances as agreed at previous Cabinet meetings,

unallocated general balances and the additional proposals outlined in this report for the use of unallocated balances.

The Cabinet noted that, based on decisions to date, the projected balance at 31st March 2011 is £3.2m. Of this balance £2.7m remains unallocated. Cabinet will be aware that it has set a working balances level of £2.3m at its December meeting and this leaves a usable balance of £0.4m.

Proposals for the use of balances have been limited to those issues that require one time financial support and do not create an ongoing revenue commitment for the Council. It was not considered prudent to utilise balances to create a balanced budget and no budget pressures have been put off to future years by these plans for the use of balances.

In addition to the level of working balances, agreed by the Cabinet as £2.3m for 2011/12, it is necessary to quantify the minimum level of General Fund Balances. This is the limit below which Cabinet cannot go without the authority of Council. In recent years this has been set by Council at £2m. As there has been no change to the level of working balances by Cabinet it is recommended that this level of minimum balances be retained for a further year.

Government Grant

Appendix A incorporates government grant of £6.5m. This is a 16.17% reduction over the adjusted 2009/10 grant and commences a two year settlement. The Government also announced intentions to amend the formula grant process during that time so that a new grant arrangement would commence in 2013.

Strategic Assessment of the 2011/12 Revenue Estimate

The revenue estimate 2011/12 has been developed in line with the MTFs and the Strategic Plan in order to produce a balanced budget that includes resources to achieve strategic objectives.

The revenue estimate produces a budget requirement of £19.907m. This can be balanced by a Council Tax freeze on a tax base of 60,303.1 as agreed by General Purposes Group in December 2010. This requires acceptance of the four year Government grant and a minor contribution from the collection fund adjustment. The figures are given in the table below:

	£,000
Revenue Support Grant	6,482
Council Tax at £222.39 (a freeze on 2010/11)	13,411
Collection Fund Adjustment	15
Total Income	19,907

The Council are aware that the Government has offered a cash frozen, four year grant equivalent to a 2.5% increase in Council tax to any authority who either freezes or reduces their level of Council Tax for 2011/12. Cabinet indicated at its February meeting that a freeze and acceptance of the Government grant should form the basis of the Council Tax level recommended to Council and Appendix A has been developed on that basis.

Council could consider an alternative approach, a 1% increase in the Council Tax level would equate to a £134,000 increase in resources. In order to achieve a change in the total resources for 2011/12 the increase would need to be greater than the 2.5% grant available from central government as this would no longer be available. The Government has announced that an increase of more than 3.5% will attract their attention and bring the possibility of capping.

Although an increase at 2.5% does not change resources for 2011/12, any actual increase in the Council Tax will be a permanent increase in resources whereas the grant will only last for four years at which point the resources will cease. The consequence of this can be seen in the financial projection within Appendix A.

Capital Programme

The budget strategy incorporates estimates for both revenue and capital expenditure. Appendix A sets out details of the capital programme 2010/11 to 2014/15.

As part of the consideration by Cabinet Members and officers since the December Cabinet meeting each scheme within the programme has been reviewed to identify the minimum level of activity required for each scheme to complete its commitments and priority activities. That work has created a programme that comes close to a complete freeze on schemes without creating extensive damage to the Council's priorities or increasing the pressure on service revenue budgets.

In tandem with this work officers reviewed the proposals for the high street improvements and considered alternative options that deliver a phased completion of the works with each phase improving a distinct section of the high street area. The review has assessed the suitability of the phased approach, each phase's contribution to economic regeneration and the overall cost of the scheme in sections and concludes there is merit in a phased development.

The programme included in Appendix A incorporates funding for a phase one that completes works in the High Street / Bank Street down to the end of Bank Street.

In addition to the review of schemes within the programme, officers also completed a review of the funding available to the programme and updated the grants, contributions and approved asset sales used within the programme. In addition a number of previously unused sources have been assessed including:

- a) The first year's new homes bonus, estimated at £0.8m.
- b) The unused balance of the VAT reclaim under the Fleming arrangements, currently £1.5m.
- c) The creation of a contribution to the capital programme from revenue by utilising the resources identified in the MTFs for future years debt repayment. Repayment of any borrowing will take priority over the use of

this resources and the amount available for use as direct revenue funding will depend on the option considered and the level of borrowing actually required.

- d) A minor increase in the revenue support grant as a one off contribution to the capital programme.

A detailed funding analysis is given at Appendix A.

Medium Term Financial Strategy

Appendix A also sets out the Medium Term Financial Strategy (MTFS). The strategy is focused on the period of the spending review, with a fifth year to incorporate the consequences of the actions taken within the spending review period.

The strategy incorporates all the improvements developed in the 2010/11 budget strategy period. Additional changes are to incorporate a risk assessment within the strategy and to develop savings proposals to significantly reduce the risk of future reductions in funding over the spending review period.

The financial projection given in Appendix A considers the targeted need for growth and savings over the period of the MTFS and incorporates a number of assumptions about inflation and changes in local and national initiatives. At this stage the Cabinet has identified proposals to match the savings levels indicated in the financial projection for the years 2011/12 to 2013/14.

The MTFS may require amendment following Council's consideration. The final version will be published as part of the budget documents on the Council's website following the Council meeting.

Future Actions to Set the Council tax for 2011/12

It is a statutory requirement of this Authority to resolve the level of Council Tax for the area. In addition the precepts of Kent County Council, the Police Authority, the Fire Authority and Parishes are required.

Council are recommended, for this Authority, to resolve the following:

- a) Agree gross revenue expenditure, including parish precepts
- b) Agree gross revenue income
- c) Agree net revenue expenditure including parish precepts
- d) Identify parish precepts as "special items" to be levied on the tax base as set out in Appendix B attached.
- e) Agree the level of formula grant to be received and the level of collection fund adjustment

- f) Declare this authority's basic Council Tax rate i.e. c) above less e) above divided by the tax base as approved by General Purposes Group in December 2010
- g) Declare this authority's tax rates for the urban and rural areas
- h) In accordance with the precepts from Kent County Council, the Police Authority and the Fire Authority, declare the overall tax rate for all parts of the area.

In addition, it is necessary, under Section 25 and 26 of Part 2 of the Local Government Act 2003, for the section 151 Chief Finance Officer to give her opinion to Council, when setting the above requirements, that the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise. Based upon the process undertaken this year, and the information contained in this recommendation, it is not anticipated that this opinion will include any adverse comments.

Alternatives considered and why not recommended

The major alternatives were included within the report of the Head of Finance and Customer Services.

Council could agree a Council Tax level above the level that would be considered adequate by Government. It would be possible for central government to use capping powers to enforce an adjustment to the Council Tax level which would be at cost to the Council.

The setting of a balanced budget is a statutory obligation. To choose not to set a budget and a Council Tax level for 2011/12 is not an option.

Background Papers

Budget working papers held in Corporate Finance.
Correspondence from Central Government dated 31st January 2011 regarding financial support for 2011/12.
Government Consultation: New Homes Bonus
Government Consultation: Council Tax Freeze