

MAIDSTONE BOROUGH COUNCIL

CABINET

WEDNESDAY 10 SEPTEMBER 2014

REPORT OF CORPORATE LEADERSHIP TEAM

Report prepared by Paul Riley

1. BUDGET STRATEGY 2015 16 ONWARDS - REVENUE

1.1 Issue for Decision

1.1.1 This report allows Cabinet to review the medium term financial strategy (MTFS) for 2015/16 onwards along with developments and emerging issues that will affect the revenue budget for 2015/16 to 2019/20.

1.1.2 The report seeks Cabinet's view on draft assumptions that will be used to set the MTFS for planning purposes and for consultation. The draft assumptions for the MTFS are considered in the context of the strategic plan as currently published and will later be reviewed to meet the context of the new strategic plan.

1.1.3 The details provide an early indication of the level of savings and efficiencies required so that the Council is able to produce a balanced budget.

1.2 Recommendation of Corporate Leadership Team

1.2.1 That Cabinet selects, for planning purposes, the "recommended assumptions" version of the strategic revenue projection from the three scenarios given at Appendix D and agrees any necessary amendments to that projection.

1.3 Reasons for Recommendation

1.3.1 The MTFS is a five year rolling strategy that is reviewed and updated annually as a key element of the development of the budget and is ultimately approved by Council. The strategy sets out the revenue spending plans of the Council and states the criteria by which decisions in relation to the development of the annual budget are to be made. This report reviews the strategy and considers options for the development of a five year strategic revenue projection (SRP).

1.3.2 The development and approval of a five year SRP at this early stage achieves two objectives:

a) To set out the risks to achieving a balanced budget.

This means identifying, at this early stage, the expected pressures on the Council's resources and therefore allowing a suitable opportunity to identify the necessary efficiencies.

b) To set out the current planning assumptions for consultation.

This means both public consultation, that is a formal requirement, and informal consultation with overview and scrutiny and interested members.

1.3.3 Since the approval of the current MTFS by Council on 5th March 2014 there have been no major announcements from central government that have a direct effect upon the budget. The forthcoming budget year, 2015/16, is the year of the general election and it is expected that announcements that may affect funding levels will be made later in the year but in time to impact upon resources for 2015/16.

1.3.4 This year is the first year of the Kent Business Rates Pool and Maidstone Borough Council is an inaugural member. The Council's business rates account is currently reporting a very minor level of growth in business rates. Interest in membership of the pool is growing amongst district councils in Kent as the potential for economic growth becomes clearer. As new business premises are developed in Maidstone they will have an impact on future business rates levels in the borough. The pool will ensure the Council can take maximum advantage of that growth.

1.4 The Local Context

1.4.1 Attached at **Appendix A** is the budget summary for 2014/15. This was agreed at Council on 5th March 2014. The 2014/15 budget was developed from the work on the MTFS during 2013/14 and forms the base position for the consideration of the details set out in this report.

1.4.2 Also attached for further information are the following:

Appendix B – The currently approved MTFS for 2014/15 onwards.

Appendix C – The statement of balances projected to March 2015.

1.4.3 The provisional outturn position for 2013/14 was reported to Cabinet in May 2014. The report showed a net under spend of £92,000 after

allowing for the carry forward of various budgets to 2014/15 as set out in the table below:

Gross to Net Under Spend 2013/14	£,000
Variance on net service spending	7,711
Less:	
Revenue set aside to finance capital expenditure	-6,157
Grants required to be carried forward	-831
Carry forward requests	-631
Net Under Spend	92

- 1.4.4 The external audit of the Statement of Accounts for 2013/14 is almost complete. Any changes to the revenue position identified during the course of the audit will be reported to Cabinet as part of the second quarter's budget monitoring report for 2014/15.
- 1.4.5 The first quarterly monitoring report for 2014/15 was considered by Cabinet in August 2014 and identified a number of areas where there were concerns regarding adverse variance and budget pressures. In most cases Cabinet took action to resolve the issues however two areas remain for continued monitoring and possible future action. These are: the level of demand and the cost of temporary accommodation provided for homeless persons; and the review of the Council's own accommodation requirements. In both cases Cabinet will be kept informed of the situation and any necessary actions through the quarterly budget monitoring reports and the development work around this medium term financial strategy.
- 1.5 The National Context
- 1.5.1 Since 2010/11 the Council's MTFS has been considered within the framework of the government spending review of October 2010. Public sector spending reductions form a major part of that review and are central to the Government's objective of removing the structural deficit. The spending review period ends with the current year, 2014/15.
- 1.5.2 In the spending round 2013 the Chancellor announced, for the public sector, a further cut in revenue spending of £11.5bn and growth of £3bn in capital spending in 2015/16. Within these sums there is an expected real-terms reduction of 10% in the funding that is available direct from the Department for Communities and Local Government along with a real-terms reduction of 2.3% in funding from other departments.
- 1.5.3 The reduction in direct funding that the Council can expect was set out in the indicative revenue support grant figures provided by the Department for Communities and Local Government (DCLG) which

are considered later in this report. The effect on other funding received from central government is more difficult to predict however the DCLG has commenced a minor consultation on the administration grant and the new burdens grant for local council tax support and the potential consequences are also considered later in this report.

- 1.5.4 Until the current year the effect on the economy of the Government's plan has not been as positive as expected. The economy has proven resistant to the efforts and tabulated below are the UK economic indicators of growth and national debt for the past five years.

	2009	2010	2011	2012	2013
Growth	-3.6%	1.5%	0.7%	0.0%	2.6%
National Debt (trillions)	£0.62t	£0.76t	£0.91t	£1.11t	£1.19t

- 1.5.5 A range of other indices have a direct effect upon the MTFs and are useful for consideration at this point. Tabulated below are the RPI (Retail Price Index), CPI (Consumer Price Index), the base rate and the LIBOR (London Inter-Bank Offered Rate) over a similar period.

Rate as at March:	2010	2011	2012	2013	2014
RPI	4.4%	5.3%	3.6%	3.3%	2.5%
CPI	3.4%	4.1%	3.5%	2.8%	1.6%
Base Rate	0.5%	0.5%	0.5%	0.5%	0.5%
LIBOR 1month	0.237%	0.253%	0.241%	0.204%	0.156%

1.6 The Strategic Revenue Projection (SRP)

- 1.6.1 The strategic revenue projection (SRP) is a model used annually by Cabinet to concisely predict the effect of major local and national priorities on the future revenue budget of the Council.

- 1.6.2 In the past Cabinet has used, at this early stage, a document that models three results:

- a) Using minimum resource assumptions;
- b) Using maximum resource assumptions; and
- c) Using the recommended resource assumptions.

This enables Cabinet to compare the recommended assumption with the range of possible outcomes.

- 1.6.3 All three models use predictions regarding factors such as inflation rates and the consequences of local and national initiatives on the future revenue budget of the Council. The most significant factors are discussed individually later in this report.

- 1.6.4 The three SRPs are given at **Appendix D**. Cabinet may wish to select one as the future planning tool or modify any of the three to meet their favoured assumptions. There is a significant amount of detail in each of the three models created by the assumptions. These have been set out when considering each issue in the following sections of the report.
- 1.6.5 It is recommended that Cabinet adopt the recommended assumptions model as the planning tool and for consultation.

1.7 Resource Issues in the Strategic Revenue Projection

- 1.7.1 **Revenue Support Grant:** In February 2014 the DCLG notified the council of the indicative figure for revenue support grant (RSG) in 2015/16. The break down of the figures for both RSG and business rates that were contained in the notification are given in the table below:

	RSG £,000	Business Rates £,000
Base Funding	2,000	2,801
2011-12 Freeze Grant	193	140
Homeless Prevention	58	42
Total	2,251	2,983

- 1.7.2 All three strategic revenue projections are developed on the basis of an assumption that by 2019/20 the current RSG received by the Council will no longer be paid. The variation in assumptions set out in the three SRPs test the options of:

- a) The "cliff edge" approach that is considered likely by many district council's;
- b) An even decline over the five years; and
- c) A hybrid rate of decline that is not as significant as the cliff-edge approach.

- 1.7.3 **Business Rates:** All three SRPs include assumptions regarding the expected level of income that the Council will be permitted to retain from the collection of business rates. The assumptions are derived from the indicative figure provided by central government and set out in the table at paragraph 1.7.1 above. The indicative figure is then projected into the future using an assumption of 2% to represent medium term RPI increases. This inflation rate is used because the annual uplift in the business rates multiplier, as set nationally by central government, is still aligned to RPI inflation.

- 1.7.4 The Council is an inaugural member of the Kent Business Rates Pool and expects, in the future, to benefit from growth in the business

rates base within the borough. The "minimum resources" SRP assumes that no additional income will accrue from business rates growth. The remaining two SRPs assume growth in the forthcoming year of £300,000 in rateable value (RV), followed by an additional £75,000 RV growth in each of the further four years of the strategy.

- 1.7.5 **Council Tax:** The level of council tax increase for 2015/16 is a decision that will be made at Council in March 2015 based on a recommendation made by Cabinet. At this time a decision on the increase in council tax is solely for planning purposes and to enable the necessary public consultation on the Council's budget and MTFS. The current MTFS states that:

"The Council has a responsive approach to the level of Council Tax and will set this at an appropriate level commensurate with the needs of the strategic plan. In recent years it has set a small increase below CPI inflation levels and remains flexible on the level of increase for future years. The increase is set by the Council's ability to otherwise set a balanced budget."

- 1.7.6 The total resources received from council tax is a product of the tax base and the level of tax set by Council. The tax base is a value derived from the number of residential properties within the borough and their "band", which is based on valuation ranges, adjusted by all discounts and exemptions. The tax base as at July 2014 is 55,764.1 which is then adjusted for estimated average growth during 2015/16, mainly derived from developments; demolitions; and new claimants for discount and exemptions. The figures used in all three SRPs are predicted figures as the actual tax base calculation will occur mid October 2014 as per current regulations.

- a) The minimum resource SRP assumes no increase in the council tax charged by the Council and a 0.2% annual increase in the tax base;
- b) The maximum resource SRP assumes a 1.99% increase in council tax as this is expected to continue to be the government set referendum limit. This is combined with a 0.9% increase in the tax base; and
- c) The officer recommended SRP assumes that the council tax increase will be equivalent to the previous year's increase of 1.99% and be held consistently throughout the five years of the MTFS this is combined with a 0.3% annual increase in the tax base.

- 1.7.7 In considering a suitable level of increase for planning purposes members may wish to note that a 1% increase in council tax is equivalent to additional resources of £0.13m per annum. This is an average annual increase of £4.80 or 40 pence per month at band D.

- 1.7.8 A nil annual increase in council tax over the five years of the strategy would mean council tax income levels of £13.1m by 2019/20 whereas a 1.99% increase would mean council tax income levels of £14.4m by 2019/20 assuming consistent tax base increases of 0.3% per annum. This is a variation in available resources of £1.3m.
- 1.7.9 **Other Income:** Other sources of income available to the Council include income from fees and charges, sales, licenses, rents and contributions from other organisations. The 2014/15 estimate for other information is £13.9m and the first quarter's monitoring report, considered by Cabinet in August, suggests that overall receipts are on target.
- 1.7.10 Fees and charges are increased annually in line with the Council's approved policy on fees and charges. Cabinet will consider a full report on proposed changes to the levels of fees and charges in December 2014. At that time the increase will be incorporated into the chosen SRP. In all three SRPs the assumed increase in income generated from current activities is nil.
- 1.7.11 Cabinet has recently approved a commercialisation strategy for the Council. This strategy set a baseline objective of £1m income from additional or enhanced commercial services over the next five years. All three SRPs include an annual increase of £0.2m to reflect an even development of these services over the five years. As progress is made with the strategy the profile of the £1m increase may require adjustment.

1.8 Expenditure Assumptions in the Strategic Revenue Projection

- 1.8.1 **Inflation Indices:** These are considered in detail for their effect on the subjective expenditure elements of the revenue account. For each subjective element the appropriate index and rate have been discussed with services managers or identified from the requirements of a related contract. These are then used to calculate the increased costs expected in 2015/16 and future years. These indices have been kept consistent across all three models of the SRP. The rates used are set out in the table below:

Expenditure Type:	%
Employee Costs (Including Increments)	1.5
Insurance	3.0
Rents	6.2
Business Rates	2.0
Contracts – range 0% to 3.9%	<i>(Avg)</i> 1.0
Energy & Water – range -3.5% to 4%	<i>(Avg)</i> 2.5
Other running costs	0.0

- 1.8.2 **Welfare Reform:** The change, in 2013/14, from council tax benefit to local council tax support and the future introduction of Universal Credit create an expectation that the Council will receive a reduction of £0.15m in the level of administration grant from Central Government in 2015/16. A further reduction of £0.1m has been assumed in the MTFS for the year 2017/18. The actual reductions will not be known until later this year.
- 1.8.3 **Single Tier Pension Arrangements:** The government's proposals to implement a single tier pension by 2016 will have a cost implication for local government employer national insurance contributions. Local government employers will have to pay the same rate as employers who are not contracted out. This is an increase of up to 3.4%. It will also have an impact on employees as they will also lose their contracting out rebate so may have to pay 1.4% more in national insurance. At this time an assumed additional cost of £0.3m from 1st April 2016 is included in all three SRPs.
- 1.8.4 **Regeneration Costs:** The SRPs assume a loss of income or increase in costs from the potential redevelopment of a town centre car park such as King Street. It has been a long term intention of the Council to identify a more suitable use than the current surface car park. Officers are actively considering options at this time. The three SRP's make different assumptions about the possible sale of the asset and the loss of the car park income. These are:
- a) The minimum resource SRP assumes immediate loss of all income;
 - b) The maximum resource SRP assumes full retention by a redevelopment retaining the current income levels; and
 - c) The recommended SRP assumes a partial loss by redevelopment with a lesser income stream of £75,000, occurring in 2016/17.
- 1.8.5 **Economic Development:** In the development of the MTFS for 2014/15 consideration was made by Cabinet to the enhancement of the Economic Development Team in recognition of their direct contribution to the delivery of the Council's current priorities. Three new posts were created and funding was built up within the MTFS over a period of three years commencing in 2014/15. The MTFS identifies the continued need to resource £60,000 of salary costs within the team. At present these costs are being funded from the residual funding received from the growth point programme.
- 1.8.6 **Growth Provision:** In the latter years of the MTFS a non-specific growth pressure of £50,000 per annum is included. The future contains as yet unknown risks and potential budget pressures, this pressures enables the Council to reflect a small element of pre-preparation into its future efficiency plans.

1.9 Savings and Efficiency

1.9.1 The SRPs identify the predicted levels of resource available to the Council and the additional budget pressures facing the Council for each year of the MTFS. From this information the level of savings and efficiency required to create a balanced budget can be deduced.

1.9.2 The three versions of the SRP attached as Appendix D produce the savings tabulated below

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	Total
Minimum Resources	1,374	1,671	1,271	493	215	5,024
Maximum Resources	883	788	427	455	382	2,935
Recommended	962	1,149	520	489	327	3,447
Identified Savings Proposals	-409	-130	-160			-699

1.9.3 The work completed on the MTFS to date means that some proposals already exist to achieve the required savings for 2015/16, 2016/17 and 2017/18. Based on the figures from the recommended assumptions SRP and allowing for the savings already proposed there is still a need to identify savings and efficiencies as follows:

Year	Saving £,000
2015/16	553
2016/17	1,019
2017/18	360
2018/19	489
2019/20	327
Total	2,748

1.9.4 A number of initiatives can assist the Council in identifying actions that will achieve these revised targets, such as:

- The Strategic Leadership and Corporate Services Overview and Scrutiny Committee's Budget Working Group;
- The review of fees and charges to be reported to Cabinet later in the year;
- Procurement activities such as a review of major contracts and category management;
- Ongoing reviews of new ways of working and staff structures.

1.9.5 At this time officers, Cabinet Members and Overview & Scrutiny are continuing to identify proposals that will enable the Council to deliver a balanced budget over the period of this MTFS. Additional savings will be reported to future meetings of Cabinet.

1.10 Alternative Action and why not Recommended

1.10.1 Cabinet could at this stage await clarity on the issues discussed in this report. It is however prudent to agree a revenue projection at this stage to enable planning for the required savings and for consultation.

1.10.2 With reference to the specific issues and assumptions within the report it is inevitable that Cabinet will need to take a view on each issue and assess their future impact on the Council. The three strategic revenue projections are developed to assist Cabinet with this task. It is the intention of the report to initiate discussion and to provide Cabinet, and interested members, with the opportunity to raise issues, concerns and proposals at a formative stage in the development of the MTFS.

1.11 Impact on Corporate Objectives

1.11.1 It is the purpose of the budget strategy to allocate resources to the priority outcomes in the strategic plan, including the allocation of resources to other plans and strategies developed to achieve those outcomes. It is necessary for Cabinet to be satisfied that their priority objectives are funded through this strategy.

1.12 Risk Management

1.12.1 Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. The MTFS is improved each year to enhance its resilience and effectiveness. The Strategic Leadership and Corporate Services Overview and Scrutiny Committee has commenced its work on reviewing the budget proposals and will consider Cabinet's decisions on this report at its next meeting. The group will carry out an in depth assessment of the proposed strategic revenue projection and the savings proposals brought forward. In 2013/14 the committee set up an all member budget workshop and is likely to carry out the same activity again this year.

1.12.2 Specific budget risks and opportunities are identified in the main body of the report, especially the consideration of the factors in the strategic revenue projection. The selection of the most appropriate strategic revenue projection and the continued monitoring of the factors included will help mitigate these risks.

1.13 Other Implications

1. Financial

X

2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	X
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	X

1.13.1 **Financial:** The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that Cabinet gives consideration to the financial consequences, at service level, from the recommendations in this report.

1.13.2 **Staffing:** The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.

1.13.3 **Legal:** The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.

1.13.4 **EINA:** The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.

1.13.5 **Asset Management:** Resources available for asset management are contained within the strategic revenue projections set out in this report.

1.14 Relevant Documents

1.14.1 Appendices

Appendix A Budget Summary for 2014/15

Appendix B MTFS 2014/15 onwards

Appendix C Statement of Balances projected to March 2014

Appendix D Strategic Revenue Projections 2015/16 Onwards

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

No

If yes, this is a Key Decision because: Budget Strategy report

Wards/Parishes affected: All