

**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 5<sup>th</sup> 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 5<sup>th</sup> 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:

<b>Gross to Net Under Spend 2013/14</b>	<b>£,000</b>
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
<b>Net Under Spend</b>	<b>92</b>

- 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.

<b>Rate as at March:</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
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:

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

- 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:

<b>Expenditure Type:</b>	<b>%</b>
Employee Costs (Including Increments)	1.5
Insurance	3.0
Rents	6.2
Business Rates	2.0
Contracts – range 0% to 3.9%	(Avg) 1.0
Energy & Water – range -3.5% to 4%	(Avg) 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 1<sup>st</sup> 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

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

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:

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

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

**BUDGET STRATEGY 2015/16 ONWARDS**  
**SUMMARY REVENUE ESTIMATE 2014/15**

<b>2013/14 ACTUAL £</b>	<b>SERVICES (AMENDED TO NEW PORTFOLIO STRUCTURE)</b>	<b>2014/15 ORIGINAL ESTIMATE £</b>
965,801	<b>Leader of the Council</b>	1,107,210
6,718,946	<b>Community &amp; Leisure Services</b>	1,351,830
(659,943)	<b>Corporate Services</b>	9,348,740
4,076,469	<b>Economic &amp; Commercial Development</b>	1,395,650
6,005,813	<b>Environment</b>	6,402,750
1,103,499	<b>Planning, Transport &amp; Development</b>	(389,430)
18,210,585	<b>TOTAL SERVICE SPENDING</b>	19,216,750
-	<b>General Underspend</b>	(140,000)
18,210,585	<b>NET SERVICE SPENDING</b>	19,076,750
	<b>Contribution to (from) Balances</b>	
(114,500)	- Planned - General	
	- Planned - In Year General	
(6,215,900)	- Carry Forward	
	- Asset Replacement	
40,000	- Invest to Save	40,000
2,260	- Trading Accounts	
(106,520)	- LDF Earmarked Reserves	-
(6,394,660)	<b>TOTAL CONTRIBUTION TO (FROM) BALANCES</b>	40,000
11,815,925	<b>BUDGET REQUIREMENT</b>	19,116,750

**BUDGET STRATEGY 2015/16**

**MEDIUM TERM FINANCIAL STRATEGY – REVENUE  
2014/15 ONWARDS**

<b>Index</b>	<b>Page</b>
Introduction	1
Expenditure	2
Funding	4
Reserves	7
Efficiency	8
Consultation	9
Risk Management	10

## 1. INTRODUCTION

- 1.1 This financial strategy form one of two strategies that aim to support the Council's corporate objectives as identified in the strategic plan 2010 - 2015. Whilst achieving this, major issues relating to resources and facing the Council in the medium term are considered where they relate to the day to day revenue activities of the Council. For issues relating to the capital programme see the strategy regarding capital.
- 1.2 Set out in the document are the revenue spending plans of the Council at a high level. The success of these plans will depend upon the resources available to the Council and the approach taken to ensure that those resources are aligned with corporate objectives and are being controlled in a way that ensures long-term stability. This is achieved through the development of a five year plan.
- 1.3 The year 2013/14 brought significant change that had a major impact on the Council's strategy including efforts to develop new ways to mitigate the risks relating to the retention of business rates and the local council tax support scheme. Some of the risks currently faced by the Council are greater than any faced so far and are expected to extend beyond the period of this strategy. A number of the assumptions about further years of the strategy have been based around the spending review 2010 and spending round 2013 data, by projecting those levels of reduction into the future. This work combines local knowledge with information from sources such as central government and the local government association amongst others.
- 1.4 Although this document is developed for the medium term with an outlook of five years, the Council reviews the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. The review is completed to coincide with the annual review of the strategic plan to enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key outcomes. Production of this document and the balanced budget it facilitates support the key outcomes of the strategic plan in their own right.
- 1.5 In addition the Council consults with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

## 2. EXPENDITURE

- 2.1 This financial strategy adopts a high-level review of the corporate objectives and budget pressures over the five-year period. This approach ensures a focus on factors that may influence the Council's stated aim to maintain working balances and ensure that they are used for specific and special activities and not to balance the budget. The strategic revenue projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Cabinet.
- 2.2 Detailed proposals for dealing with financial pressures and service demand are set out in the portfolio budgets in the full revenue estimates. The major pressures assumed in the strategy are set out below:

### 2.2.1 Pay and price inflation:

The strategic revenue projection considers the allocation for pay inflation on an annual basis. The increase must allow for any staff pay award, incremental increases earned through competence appraisal and increases in employer contributions such as national insurance or current pension costs.

Other costs are increased by a suitable inflation index balanced with the objectives of the strategy. Large elements of this cost will be tied to conditions of contracts which will specify the annual increase necessary, other costs will increase by the annual increase in an inflation index such as the consumer price index. The strategy may intentionally use levels of increase lower than these indices to enhance general efficiencies.

Table 1 below details the factors used for each year of the current strategy.

Inflation Indices	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Pay Inflation	1.5	1.5	1.5	2.0	2.0
Energy Increases	4.0	4.0	3.0	2.0	2.0
Business Rates Increases	2.0	3.1	3.0	3.0	3.0
Contractual Commitments	2.1	2.1	2.0	2.0	2.0
Other Cost Increase	0.0	0.0	0.0	0.0	0.0
Growth in £,000	£455	£471	£464	£551	£563

[Table 1: Pay & price Indices]

### 2.2.2 Corporate objectives and key priorities:

In addition to these inflationary pressures the Council will develop and implement improvements to the corporate objectives identified in the strategic plan and, where significant, any local objectives identified in service plans. This may place additional pressure on the revenue budget.



The financial projection will also provide, where necessary, resources for national statutory responsibilities where these are to be provided locally.

Table 2 below identifies the links between the financial projection and key objectives.

Strategic Issues	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Borough Elections	80				
Local Development Framework	50				
Economic Development	30	30	30		
Homelessness Prevention	101				
Parish Services Agreement	80				

*[Table 2: Strategic Issues, links to other documents]*

### 3. **FUNDING**

3.1 During the period since the spending review in 2010 the Government has completed a review of local Government finance and revised the system of formula grant and national non-domestic rates. From 1st April 2013 a system that enables the retention of part of the business rates collected by the Council brought significant risk to the level of funding available to the Council from revenue support grant and business rates.

3.2 The SRP assumes that the Council will make every effort to maximise resources this includes retained business rates, council tax yields and locally derived income.

- In order to maximise potential income from business rates growth the Council has developed a business rates pool in partnership with Kent County Council;
- In order to maximise yield from council tax the council has increased its fraud work and is introducing a premium on long term empty property;
- In order to maximise its locally derived income the Council is introducing a series of commercial activities and developing methods of improving income levels from its present asset base.

3.3 Where the financial projection includes the use of fixed term grant or other time limited income sources the relevant Cabinet Member and senior officer are responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

3.4 Government Grant:

Under the current system the finance settlement for 2014/15 is rolled forward from the previous year's settlement after adjustments only for new government initiatives and policy. The Government has confirmed the level of revenue support grant and the business rates baseline need for 2014/15 and indicative figures have been provided for 2015/16, these are given in Table 3 below. The grant continues to reduce from the levels received in prior years.

The Chancellor of the Exchequer confirmed in his Autumn Statement 2013 that reductions in Government funding will continue for the forthcoming parliament following the 2015 election. Reductions, similar to those experienced by local Government since 2010, are currently expected to continue past the end date of this strategy.

Other grants received from the Government are similarly under threat from the effects of the Government's strategy to reduce public expenditure as it affects most government departments. The strategy will assume future grant aid is likely to be at risk and will assume cash frozen

values where no information to the contrary is available.

### 3.5 Retained Business Rates

As a result of the local government finance review which commenced in 2010, the Council now retains a part of the business rates it collects locally. In providing for the retention in this way the Government has passed on to the Council the risk related to the overall levels of business rates collected. Using a system of baseline funding levels, support for significant reductions and sharing of any increase the system ensures gains and losses that are experienced by the Council are limited but not negated.

In 2013/14 the Council has seen its collectable business rates decline considerably. The baseline funding level for this Council is £2.8m in 2013/14 and income levels would put the Council £0.5m below this level. However the government's own policy on small business rate relief has in part created this loss and the Council can expect to be reimbursed by Central Government at year end.

The Government has enhanced this policy for 2014/15, a similar impact has been predicted and support is expected from central Government. However there remains a significant risk to the Council from backdated rating appeals. The strategic revenue projection assumes resources to create a provision against loss will be retained from the overall business rates income. Any fluctuations in the pace and level of decisions on business rates appeals will therefore affect the levels of business rates received in year if the provision is exhausted.

### 3.6 Council Tax

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.

The Council must consider the need to set a balanced budget that enables it to provide the services required by its customers. The significant risks facing the future financial stability of the Council have been considered along with the strategic revenue projection's assessment of the future reductions in resource levels that have been predicted to follow the next spending review. The Council has set a Council Tax increase of 1.99% in order to improve resource stability in the period of the strategy.

In addition the Council has considered the levels of exemptions from Council Tax, for which it has flexibility, with the intention of improving the yield from Council Tax other than through the increase in the charge. This has meant reductions in the period or level of some exemptions available in the borough.

### 3.7 Fees & Charges

The Council has a policy on the development of fees and charges that fall within its control. This policy ensures that an evaluation of market forces and links to either the strategic plan or service plans are drivers of change in price. This means that any increases in this funding source will be identified through each portfolio's detailed budget preparation work.

For 2014/15 all fees and charges collected by the Council were considered by Cabinet and a range of increases were set in line with the policy statement. Although the increase in each charge was considered and set appropriately for its individual circumstance, the overall position created a 0.7% increase in expected income.

The tables 3 and 4 below show the expected level of resources for each year of the strategy and any pressures that will affect the level income or its collection.

Strategic Issues	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Revenue Support Grant	3,274	2,251	1,463	922	420
Retained Business Rates	2,903	2,983	1,896	2,889	2,893
Council Tax	12,939	13,162	13,464	13,772	14,087
Fees & Charges	7,837	7,841	7,841	7,841	7,841

[Table 3: Resource and income indices]

Strategic Issues	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Council Tax Benefit Admin	25	75		100	
Income reduced by Regeneration Projects		100	50		

[Table 4: Strategic Issues, links to other documents]

#### 4. RESERVES

- 4.1 The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances or events. In setting the level of these balances and reserves an assessment is made of the potential risks and opportunities that could reduce or enhance those balances.
- 4.2 Revenue balances at 1<sup>st</sup> April 2013 totalled £12.58m and it is estimated that this balance will be £4.97m by 1<sup>st</sup> April 2014.
- 4.3 The major items reducing the balance are approved budget carry forwards of £5.52m from 2012/13 resources into 2013/14 for prior agreed purposes and the approved use of the 2011/12 and 2012/13 under spend on the revenue budget of £1.38m.
- 4.4 The Government's intention is to continue to reduce resources available to local Government and the Council will continue to set a balanced budget by identifying savings and efficiencies. As far as possible this will be completed as need arises but it may continue to be successfully completed in advance. While the Council does not expect underspends as significant as those seen in 2011/12 it will plan for the potential to underspend from savings delivered in advance of identified need.
- 4.5 Currently, balances comprise a general balance and a series of specific allocations, the breakdown of these is given in Table 5 below.

Balances	01/04/2013 £,000	01/04/2014 £,000	01/04/2015 £,000
General Balance	10,384	2,783	2,783
Trading Account Surpluses	179	179	179
Asset Replacement	127	167	167
Invest to Save Initiatives	518	558	598
Local Development Framework	523	0	0
VAT Reclaim	852	798	746
Commercialisation	0	500	500
Grand Totals	<b>12,583</b>	<b>4,985</b>	<b>4,973</b>

[Table 5: Revenue balances]

## 5. Efficiency

- 5.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money (vfm) services that residents are satisfied with, as a key outcome. This theme runs through service plans and by this the Council's approach to efficiency is integrated in to all decision making.
- 5.2 The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:
- a) Peer review and peer challenge.
  - b) Benchmarking to measure unit cost and performance, comparing these over time and across similar councils throughout the country.
  - c) Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
  - d) The identification of efficiency targets that match the Council's need over the period of this medium term financial strategy.
- 5.3 Efficiency proposals are carefully measured for effect upon capacity, acceptable levels of service, quality standards, and the potential of shared service provision. All efficiency proposals consider the effect of fixed costs and the effect on the base financial standing of the Council and the opportunity for reinvestment of gains into priority services or toward achievement of corporate objectives.
- 5.4 The adoption of efficiency and VFM as part of this strategy helps to ensure that the strategic revenue projection will remain within available resources.
- 5.5 The strategic revenue projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 6 below details the required saving for each year, based on the factors used in the financial projection, and the percentage of net revenue spend the given saving represents.

Strategic Projection	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
Annual Savings Requirement	1,254	1,446	1,167	1,241	796
Percentage of Net Revenue Spend	6.6%	7.9%	6.5%	7.1%	4.6%

[Table 6: Annual savings requirement]

- 5.6 The Council has required the savings target to be met in the medium term and at this time proposals are in place to provide efficiency and savings to support the requirement through to 2016/17. The Council is continuing to develop long term proposals to ensure the future risk is mitigated at the earliest time.

## 6. **CONSULTATION**

- 6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a programme has been proposed that ensures the focus of annual consultations avoids the review of similar themes and builds a body of opinion.
- 6.2 The Council consults annually on this strategy and the proposed budget for the forthcoming year. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.
- 6.3 In recent years the consultation has considered the level of Council tax increase acceptable and the service areas where reductions should occur, the elasticity of demand for services provided by the Council with a related fee and for this strategy the consultation focused on the long term factors faced by the Council due to the current economic climate and the relative importance residents place on a range of discretionary services provided by the Council.

## 7. **RISK MANAGEMENT**

- 7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, this strategy must consider the barriers to achieving the resource levels assumed by the budget.
- 7.2 A full risk assessment of the strategy has been completed and forms part of the operational risk assessment of the services provided by the Head of Finance and Customer services.
- 7.3 Twelve major risk areas have been identified and action plans have been developed for each. The twelve areas are as follows:
  - a) The level of balances;
  - b) Inflation rates;
  - c) National strategy;
  - d) Limitations on Council Tax increases;
  - e) Fees and charges;
  - f) Capital financing;
  - g) Prudential Borrowing;
  - h) Horizon scanning;
  - i) Delivery of efficiency;
  - j) Collection Fund, collection rates;
  - k) Business Rates pooling;



**BUDGET STRATEGY 2015/16 ONWARDS - REVENUE**  
**ESTIMATE OF GENERAL FUND BALANCES AS AT 31 MARCH 2015**

	Unallocated General Fund	Trading Accounts	Asset Replacement	VAT Reclaim	Planning Management	Commercialisation	Invest to Save	LDF	Grand Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance as at 31st March 2013	10,384	179	127	852	0	0	518	523	12,583
2012/13 Carry Forward used in 2013/14	-5,519								-5,519
Annual transactions in 2013/14			40				24		64
Parish Council support	-30								-30
Local Development Framework								-523	-523
Localism funding				-54					-54
Use of 2011/12 under spend	-860								-860
Use of 2012/13 under spend	-266								-266
Revenue Funding from NHB	-168								-168
Commercialisation Provision	-500					500			0
Contribution from Revenue Account	7,711								7,711
Estimated balance as at 31st March 2014	10,752	179	167	798	0	500	542	0	12,938
2013/14 Carry Forwards Used in 2014/15	-7,619								-7,619
Pensions	-52								-52
Use of 2012/13 Underspend	-288								-288
Annual Transactions	-200				200		40		40
Estimated Balance as at 31st March 2015	2,593	179	167	798	200	500	582	0	5,019

## MINIMUM RESOURCE ASSUMPTIONS

BUDGET STRATEGY 2015/16 ONWARDS  
STRATEGIC REVENUE PROJECTION

2014/15 £,000		2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
------------------	--	------------------	------------------	------------------	------------------	------------------

AVAILABLE FINANCE						
3,274	REVENUE SUPPORT GRANT	2,251	1,228	205	0	0
2,903	RETAINED BUSINESS RATES	2,983	3,043	3,104	3,166	3,229
6,177		5,234	4,271	3,309	3,166	3,229
71	COLLECTION FUND ADJUSTMENT	80				
12,868	COUNCIL TAX	12,914	12,940	12,965	12,991	13,017
19,116	<b>BUDGET REQUIREMENT</b>	18,228	17,211	16,274	16,157	16,246
13,938	OTHER INCOME	14,138	14,338	14,538	14,738	14,938
<b>33,054</b>	<b>TOTAL RESOURCES AVAILABLE</b>	<b>32,366</b>	<b>31,549</b>	<b>30,812</b>	<b>30,895</b>	<b>31,184</b>

EXPECTED SERVICE SPEND						
33,487	<b>CURRENT SPEND</b>	33,054	32,366	31,549	30,812	30,895
	<b>INFLATION INCREASES</b>					
455	PAY AND INFLATION INCREASES	406	474	434	526	454
	<b>NATIONAL INITIATIVES</b>					
25	LOSS OF ADMINISTRATION GRANT	150		100		
50	PENSION DEFICIT FUNDING					
	SINGLE TIER PENSION ARRANGMENTS		300			
	<b>LOCAL PRIORITIES</b>					
80	ELECTIONS					
50	LOCAL PLAN					
	REGENERATION COSTS	100	50			
30	MARKET INCOME					
21	ADVERTISING SPONSORSHIP					
30	ECONOMIC DEVELOPMENT	30	30			
80	SERVICE ARRANGEMENTS WITH PARISHES					
	<b>MINOR INITIATIVES</b>					
	GROWTH PROVISION				50	50
<b>34,308</b>	<b>TOTAL PREDICTED REQUIREMENT</b>	<b>33,740</b>	<b>33,220</b>	<b>32,083</b>	<b>31,388</b>	<b>31,399</b>

<b>1,254</b>	<b>ANNUAL SAVINGS TARGET</b>	<b>1,374</b>	<b>1,671</b>	<b>1,271</b>	<b>493</b>	<b>215</b>
--------------	------------------------------	--------------	--------------	--------------	------------	------------

## MAXIMUM RESOURCE ASSUMPTIONS

BUDGET STRATEGY 2015/16 ONWARDS  
EXPECTED STRATEGIC REVENUE PROJECTION

2014/15 £,000		2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
<b>AVAILABLE FINANCE</b>						
3,274	REVENUE SUPPORT GRANT	2,251	1,691	1,131	571	0
2,903	RETAINED BUSINESS RATES	2,983	3,043	3,104	3,166	3,229
	GROWTH	42	52	62	72	82
6,177		5,276	4,786	4,297	3,809	3,311
71	COLLECTION FUND ADJUSTMENT	80				
12,868	COUNCIL TAX	13,263	13,649	14,045	14,454	14,874
19,116	<b>BUDGET REQUIREMENT</b>	18,619	18,435	18,342	18,263	18,185
13,938	OTHER INCOME	14,138	14,338	14,538	14,738	14,938
<b>33,054</b>	<b>TOTAL RESOURCES AVAILABLE</b>	<b>32,757</b>	<b>32,773</b>	<b>32,880</b>	<b>33,001</b>	<b>33,123</b>

<b>EXPECTED SERVICE SPEND</b>						
33,487	<b>CURRENT SPEND</b>	33,054	32,757	32,773	32,880	33,001
	<b>INFLATION INCREASES</b>					
455	PAY AND INFLATION INCREASES	406	474	434	526	454
	<b>NATIONAL INITIATIVES</b>					
25	LOSS OF ADMINISTRATION GRANT	150		100		
50	PENSION DEFICIT FUNDING					
	SINGLE TIER PENSION ARRANGMENTS		300			
	<b>LOCAL PRIORITIES</b>					
80	ELECTIONS					
50	LOCAL PLAN					
	REGENERATION COSTS					
30	MARKET INCOME					
21	ADVERTISING SPONSORSHIP					
30	ECONOMIC DEVELOPMENT	30	30			
80	SERVICE ARRANGEMENTS WITH PARISHES					
	<b>MINOR INITIATIVES</b>					
	GROWTH PROVISION				50	50
<b>34,308</b>	<b>TOTAL PREDICTED REQUIREMENT</b>	<b>33,640</b>	<b>33,561</b>	<b>33,307</b>	<b>33,456</b>	<b>33,505</b>

<b>1,254</b>	<b>ANNUAL SAVINGS TARGET</b>	<b>883</b>	<b>788</b>	<b>427</b>	<b>455</b>	<b>382</b>
--------------	------------------------------	------------	------------	------------	------------	------------

## RECOMMENDED RESOURCE ASSUMPTIONS

BUDGET STRATEGY 2015/16 ONWARDS  
EXPECTED STRATEGIC REVENUE PROJECTION

2014/15 £,000		2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
<b>AVAILABLE FINANCE</b>						
3,274	REVENUE SUPPORT GRANT	2,251	1,463	922	420	0
2,903	RETAINED BUSINESS RATES	2,983	3,043	3,104	3,166	3,229
	GROWTH	42	52	62	72	82
6,177		5,276	4,558	4,088	3,658	3,311
71	COLLECTION FUND ADJUSTMENT	80				
12,868	COUNCIL TAX	13,184	13,487	13,796	14,113	14,437
19,116	<b>BUDGET REQUIREMENT</b>	18,540	18,045	17,884	17,771	17,748
13,938	OTHER INCOME	14,138	14,338	14,538	14,738	14,938
<b>33,054</b>	<b>TOTAL RESOURCES AVAILABLE</b>	<b>32,678</b>	<b>32,383</b>	<b>32,422</b>	<b>32,509</b>	<b>32,686</b>

<b>EXPECTED SERVICE SPEND</b>						
33,487	<b>CURRENT SPEND</b>	33,054	32,678	32,383	32,422	32,509
	<b>INFLATION INCREASES</b>					
455	PAY AND INFLATION INCREASES	406	474	434	526	454
	<b>NATIONAL INITIATIVES</b>					
25	LOSS OF ADMINISTRATION GRANT	150		100		
50	PENSION DEFICIT FUNDING					
	SINGLE TIER PENSION ARRANGMENTS		300			
	<b>LOCAL PRIORITIES</b>					
80	ELECTIONS					
50	LOCAL PLAN					
	REGENERATION COSTS		50	25		
30	MARKET INCOME					
21	ADVERTISING SPONSORSHIP					
30	ECONOMIC DEVELOPMENT	30	30			
80	SERVICE ARRANGEMENTS WITH PARISHES					
	<b>MINOR INITIATIVES</b>					
	GROWTH PROVISION				50	50
<b>34,308</b>	<b>TOTAL PREDICTED REQUIREMENT</b>	<b>33,640</b>	<b>33,532</b>	<b>32,942</b>	<b>32,998</b>	<b>33,013</b>
<b>1,254</b>	<b>ANNUAL SAVINGS TARGET</b>	<b>962</b>	<b>1,149</b>	<b>520</b>	<b>489</b>	<b>327</b>