APPENDIX 1

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MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY AND EFFICIENCY PLAN

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1. OVERVIEW AND SUMMARY OF EFFICIENCY PLAN

Background

1.1 Each year, the Council prepares a Medium Term Financial Strategy (MTFS) that sets out how it plans to deliver its corporate objectives in financial terms over the next five years.

1.2 The Government has offered a four year funding settlement to local authorities, covering the years 2016/17 to 2019/20. This provides some certainty about the level of income that the Council can expect for the first three years covered by the next MTFS, ie 2017/18 to 2019/20.

1.3 The Government's funding offer requires local authorities to prepare an Efficiency Plan that shows how they will utilise the available funding. The MTFS fulfils a similar purpose, as it reflects projected levels of funding over the period that it covers. It can therefore be seen that the MTFS and the Efficiency Plan are closely linked.

1.4 For convenience, the Council has adopted a unified approach to preparation of the two documents, and will use the relevant sections of the MTFS to meet the requirement for an Efficiency Plan.

Strategic Context

1.5 The Council has set two over-riding corporate priorities: keeping Maidstone Borough an attractive place for all; and securing a successful economy for Maidstone Borough. These will be delivered both through our day-to-day revenue expenditure and through investment in the borough's infrastructure as part of the Council's capital programme. Funding for revenue spending is tightly constrained, as set out below, but the Council will seek to optimise delivery of the priorities within these constraints.

1.6 There are a different set of issues with capital investment. As set out in section 6 below, funds have been set aside for capital investment and further funding is available, in principle, through prudential borrowing. The challenge is to ensure that capital investment delivers against the Council's priorities, providing the required return on investment for the community.

Revenue funding

1.7 The Government's offer of a four year funding settlement was reported to Council when it set a budget for 2016/17, in March 2016. The MTFS for the five years 2016/17 – 2020/21, as presented in March, took account of the funding settlement in quantifying available resources over the next five years.

1.8 Given the funding settlement figures, the forecasts presented in March indicated that savings and efficiencies totalling £6.5 million would be required to cover the gap between projected resources and predicted spend. Savings of £3 million were proposed, leaving a budget gap of £3.5 million. See details below.

	16/17	17/18	18/19	19/20	20/21
	£ million	£ million	£ million	£ million	£ million
Total Resources Available (A)	33.8	33.5	34.1	33.2	32.5
Predicted Expenditure Requirement (B)	36.0	34.8	34.3	34.8	33.7
Savings & Efficiencies Required (B-A)	2.2	1.3	0.2	1.6	1.2
Required – Cumulative (C)	2.2	3.5	3.7	5.3	6.5
Savings Proposals – Cumulative (D)	2.2	2.5	2.9	3.0	3.0
Still to be identified (C-D)	-	1.0	0.8	2.3	3.5

1.9 In accordance with legislative requirements the Council set a balanced budget for 2016/17 at Full Council in March 2016. On the basis of existing agreed projections, the four year funding settlement will not allow the Council to set a balanced budget in future years, with the budget gap widening from £1 million in 2017/18 to £3.5 million in 2020/21 unless other actions are taken.

1.10 The projections set out above have now been updated in the light of further developments since March 2016 and have been rolled forward to 2021/22. Looking further ahead, there is an additional shortfall of £0.7 million in 2021/22, making a total gap in our 5 year planning period of £4.2m as reported to Policy and Resources Committee in June 2016.

1.11 In developing the current MTFS / Efficiency Plan, there are therefore two main challenges:

- Ensuring that the savings proposed in March 2016 are delivered and are sustainable
- Identifying a strategy to address the remaining budget gap of £4.2 million

1.12 More broadly, given continuing uncertainty about the projections, and in particular the position after 2019/20, it is important that there is a clear strategy that will allow the Council to address future financial challenges and risks.

The approach to meeting the two main challenges described is set out below.

Delivering existing savings proposals

1.13 Existing savings proposals have been reviewed. Where appropriate they have been adjusted, for example where the savings proposals are now no longer considered to be deliverable, or where they are not consistent with the rest of the strategy. The adjustments to the savings proposals are set out in Appendix 1, Revenue Projections 2017/18 – 2021/22.

Most of the savings proposals remain valid. As they form an inherent part of the MTFS, it is therefore essential that they are delivered. Officers are developing, or have developed, implementation plans. Progress with the savings will be monitored carefully as part of the Council's regular quarterly financial monitoring process.

Addressing the budget gap

1.14 The remaining budget gap of £4.2 million is very significant in relation to the Council's net expenditure budget of around £20 million. Owing to its size, no single initiative can be expected to close the gap. A broader, cross-cutting approach is necessary.

1.14 A two-fold approach has been taken to addressing the budget gap. First, proposed budget savings have been identified, using a conventional approach. Starting with the Council's Strategic Plan priorities, Heads of Service were asked to put forward savings proposals, which were then subject to challenge. These proposals are shown in summary form in Appendix 1 in the line 'New Savings Proposals'. The savings arise from a blend of different approaches: given the size of the budget gap, there is no single approach that is sufficient by itself. The following table sets out the generic approaches taken and the amounts contributed by each.

	£000
Delivering service outcomes in different ways	1,030
Efficiency improvements / transformation	805
Additional income	790
Reconfiguration of services	783

1.16 These savings proposals, even if agreed in full, would not be sufficient to close the budget gap for the whole period of the plan. Accordingly, a more radical approach has been taken to identify further savings. This has involved refocusing on the full range of services delivered by the Council, and considering whether the services delivered and the way in which they are delivered reflect the Council's strategy and aspirations.

1.17 The rationale for the approach is this: comparing what we <u>want</u> to deliver with what is <u>actually</u> delivered will indicate any potential misallocation of resources, and may allow resources to be freed up.

1.18 The technique used for this was a MoSCoW (must/should/could/won't) analysis of the Council's services. Each service was assigned one of the following four descriptions:

MUST - essential to the Council
SHOULD - important and its absence would weaken the Council
COULD - useful but the Council is still viable without it
WON'T - essential and can wait for now

The standard of service, both current and desired, was then categorised as gold, silver or bronze.

1.19 The outcome of an indicative service assessment using this technique is set out at Appendix 2. This approach has allowed the Council's expenditure to be prioritised. This in turn assists with the evaluation of the detailed Officer spending proposals described above and will highlight those services that need to be the focus for meeting the residual budget gap. The prioritisation approach will also form the basis of wider stakeholder consultation, as detailed budget proposals are developed for 2017/18.

2 NATIONAL AND LOCAL CONTEXT

Economic Outlook 2017 – 2022

2.1 The current national economic outlook is not favourable, making it even more important that the Council has financial plans that are robust and capable of withstanding shocks. Specifically, indications are that inflation is likely to rise, increasing the Council's cost base, but economic growth will slow down, with a potential reduction in tax receipts for national and local government.

2.2 The Retail Price Index (RPI) in the year to March 2016 rose to 1.6%, up from 0.9% in March 2015. The Consumer Price Index (CPI) 12 month rate (the amount prices change over a year) between March 2015 and March 2016 stood at 0.5%. The Office for Budget Responsibility published its Economic and Fiscal Outlook in March 2016 setting out its forecast up until 2020-21. This reduced down productivity growth by around 0.3 percentage points a year from the November 2016 review to an average of 2.1% a year over the rest of the decade. However, this was before the vote on the European Union (EU) referendum and based on Britain remaining in the EU.

2.3 Following the referendum, many commentators expect a slowdown in economic growth and potentially a recession. For example, PricewaterhouseCoopers in July 2016 projected UK growth to slow to 1.6% in 2016 and 0.6% in 2017. They identified that the projected slowdown will be as a result of reduced business investment following the referendum vote. On the more positive side it is predicted that consumer spending growth will remain stronger than the GDP growth and that there will be a positive contribution to GDP from growth in net trade assisted by the fall in sterling.

2.4 The Monetary Policy Committee (MPC) in August reduced the base rate from the 0.5% previously held for seven years to 0.25%. The MPC may well reduce the base rate further in the coming months. The market reaction to the recent reduction has led to at least one major bank indicating that it may reduce its own interest rates to below base rate.

2.5 Trying to look ahead to predict the national economic position is challenging with the vote to leave the European Union affecting the current economic outlook and a lack of certainty regarding what a post Brexit UK will look like economically.

Local Government Funding

2.6 Central government funding for local authorities has reduced very substantially since 2010. At the same time, the coalition government of 2010-15 and David Cameron's Conservative government of 2015-16 made significant changes to the way that local government is financed. It is too early to say whether these trends will continue under the new Conservative government formed in July 2016. However, there is certain to be further change, given plans already announced by the previous government, and given the challenging economic environment.

2.7 A key change in the structure of local government funding was the introduction of 50% business rates retention for local authorities in 2013. This was part of an agenda of 'localism', giving more freedom and flexibility to local authorities. In practice, the benefit of receiving 50% of business rates (with the 50% split 40:9:1 between the District Councils, County Council and Fire Authority in Kent) was severely limited by the system of tariffs and top-ups that was introduced at the same time, with the intention of equalising business rates income between local authorities. Furthermore, a levy is paid to central government on business rates growth.

2.8 This means that the final value of the retained business rates for this Council is currently 7% of the amount collected. In practice this means that in 2016/17 the Council is projected to collect £61 million of Business Rates from Maidstone businesses of which just £4.3 million will be retained by the borough council.

2.9 The adverse impact of the levy for Maidstone has been mitigated by the business rates pooling arrangement that most Kent local authorities have elected to join. This allows most of the levy to be redistributed within the county.

2.10 The remaining 50% of business rates continued to go to central government, to be recycled back to local authorities in the form of Revenue Support Grant (RSG). RSG is in principle needs-based but the allocation of RSG between authorities was frozen in 2013, with the next re-assessment of needs due to take place in 2020.

2.11 The Government is now consulting on the introduction of 100% business rates retention with effect from 2020. As with 50% business rates retention, this would be linked to a mechanism for rates equalisation, which would mean that probably only a relatively small fraction of the 100% would in practice be retained by the Council. The additional income would be accompanied by devolution of further responsibilities to local government, details of which are currently subject to consultation by Government.

2.12 Whilst business rates have been and are likely to continue to be the main focus of Government reforms, the Council's principal source of funding remains Council Tax. Under current legislation, Council Tax increases are subject to a referendum if they exceed a specified limit, which is set each year by the government. For 2016/17 the limit was the greater of 2% or £5.

2.13 There is the potential for the Council to grow both its Council Tax and Business Rates income, if the numbers of households and businesses respectively grow. However, the scope for growth in the short term is limited.

2.14 A further significant source of income for the Council is New Homes Bonus. The Government distributes over £1 billion of grant in this form, based on increases in the local housing stock. Maidstone is due to receive £5.1 million in New Homes Bonus in 2016/17. Council has agreed that this be allocated to fund the capital programme. The future of New Homes Bonus is uncertain. Consultation on future arrangements for the calculation of New Homes Bonus under the banner of "Sharpening the Incentive" was undertaken by Government between December 2015 and March 2016. The Department for Communities and Local Government are currently analysing the feedback. The overall quantum of resources for local government through taxation is reducing. Consequently the resources available for New Homes Bonus may also be impacted by the outcome of consultation on Business Rates Retention.

2.15 Further details of how the Council funds its services are set out in section 5.

Stakeholder Analysis

2.16 Development of the MTFS / Efficiency Plan needs to recognise the Council's position in relation to a wide range of stakeholders. Income growth, for example, may mean additional contributions from Council Tax payers and businesses.

2.17 The table below maps out the key external stakeholders for the Council and how they are involved in the process of developing the financial strategy. Further details about specific work on consultation are set out in Section 9 below.

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Parish Councils	Keep satisfied	Planning/enforcement Environment Playgrounds	Keep informed Regular organised engagement	Quarterly meetings with KALC representatives and Parish Conference Parish liaison officer Alert to roadshow Survey/briefings sent in good time for them to respond.
Citizens Advice Bureau and grant funded organisations	Engage and manage	Keeping funding Keeping Accommodation Supporting particular service user groups	Regular contact and information	Chair and Vice Chair of CHE, and leadership team relationships Briefings
Mid Kent	Engage	Shared services	Engage	Through MKS

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Services Board	and seek to influence	Savings		Board and Shared Service Boards , 151 officer meetings and Chief Executive meetings
KCC	Engage and Seek to influence	Waste Management, Public Realm, Economic Development, Public health , Maidstone families matter Planning, Infrastructure including Transport, Devolution Potential for enhanced two tier working Residents	Engage	Project teams and boards Briefingpapers Chief Executive and Wider Leadership Team
Businesses	Inform	Business rates/transport infrastructure/Town Centre Parking / CCTV	Engage	Through channels such as MBEP, One Maidstone and the Chamber of Commerce Survey
NHS	Monitor	Public health, community safety Housing	Notify	Briefing from contacts
Kent Police	Engage and seek to influence	CCTV, public health, community safety, Housing, Emergency planning	Engage	Briefing from contacts
Kent Fire and Rescue	Monitor	CCTV, public health, community safety, housing?, emergency planning	Notify	Briefing from contacts
Department of Communities and Local	Monitor	Managing within our resources	Notify	Formal contact with Efficiency Plan and budget

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Government		Set a balanced budget Council tax rise		returns
Department of Work and Pensions – Job Centre Plus	Monitor	Accommodation Impact on residents	Notify	Briefing and Information
KCC Members	Keep informed	All services	Keep Informed Seek Support	Survey Briefing through contacts Inform of Roadshow
MPs	Keep informed	All services, particularly those with a national dimension eg Flooding	Keep Informed Seek Support	Direct briefing Inform of Roadshow
Residents	Keep Informed Engage	All (front facing services in particular)	Engage and Inform	Survey Information in the Press Website Information On-line survey Social Media Face to face roadshows
Staff	Keep Informed	Jobs Resident Interests Service Standards Doing more for less	Engage and Inform Regular contact	All existing internal communication channels
Local Media	Keep Informed	Cuts and Changes to services	Inform proactive Reactive	Regular briefings and press releases
Other Kent District Councils	Keep Informed	Shared savings and efficiencies	Inform	Briefing for Leaders and Kent Joint Chiefs
Charities and Community Groups	Keep informed	Resident Interests Opportunity to take on services	Inform	Briefings Share survey

3 CORPORATE OBJECTIVES AND KEY PRIORITIES

3.1 The Medium Term Financial Strategy and Efficiency Plan are intended to deliver the Council's corporate priorities. As well as a vision and mission the Council has agreed two corporate priorities for 2015-2020 underpinned by 8 areas of action:

Corporate Priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Action Areas:

- Providing a clean and safe environment
- Encouraging good health and wellbeing
- Respecting the character and heritage of our Borough
- Ensuring there are good leisure and cultural attractions
- Enhancing the appeal of the town centre for everyone
- Securing Improvements to the transport infrastructure of our Borough
- Promoting a range of employment opportunities and skills required across our Borough
- Planning for sufficient homes to meet our Borough's needs

For 2016/17 our particular focus is on

- Housing – tackling homelessness and improving supply
- Completing the Local Plan
- Creating a sustainable future for Mote Park
- Town Centre Regeneration
- Devolution
- Maintaining a robust Medium Term Financial Plan

3.2 We recognise that to meet our corporate priorities, working with our partners is essential, along with ensuring all our services provide value for money. Budget prioritisation is focused on ensuring we deliver our priorities with outcomes for our residents in relation to the action areas above. The plan and strategy reflect the level of resources required to achieve the key outcomes from the Council's priorities within the strategic plan.

4 REVENUE EXPENDITURE

Budget Pressures

4.1 The Council's focus on service delivery means that expenditure budgets have to be dynamic, reflecting changing service priorities and pressures. Factors influencing expenditure include both the Council's own strategic priorities and external pressures such as inflation.

4.2 Housing

Developments in the housing market have created very significant budget pressures for the Council. A recent Strategic Housing Market Assessment indicates that 43% of households in Maidstone are unable to resolve their own housing issues on the open market. Rents have risen and are significantly above the local housing allowance rate. Homeless households in temporary accommodation have increased in number, with a corresponding increase in costs, leading to a £500,000 overspend against the temporary accommodation budget in 2015/16. The Council aims to reduce the cost of providing temporary accommodation through direct investment in property, which avoids the cost of expensive third party accommodation. The Council is still developing it's capacity to respond in this way which means that, at the very least, there will be a continued short term impact on budget from the Council meeting its homelessness obligations.

4.3 Planning

The Council submitted a draft Local Plan in May 2016. This involved significant one-off costs. The Local Plan will be subject to an Inspector's Hearing in Autumn 2016. Further one-off costs are anticipated, although the exact amount will depend on what challenges the Local Plan faces.

4.4 Museum and Cultural Activities

The Council is committed to developing Maidstone as a landmark cultural destination. The services which enable this are not statutory in nature, so it is essential that maximum impact is achieved from minimal Council expenditure, levering in external expertise and funds wherever possible.

4.5 Commercialisation

Underlying all service delivery is a commitment to maximising external income from services wherever possible, trading on the Council's areas of skills and experience. The overall approach was set out in a report agreed by Members in August 2014. The theme of commercialisation continues to be developed.

4.6 Transformation

More generally, the Council is making use of the transitional grant of £394,000 that it is due to receive from government in 2016/17 and

2017/18 to fund transformation initiatives. This has included work on channel shift and will include work to enable the savings that have been proposed to help meet the budget gap.

Inflation

4.7 Current inflation rates remain low. The annual increase in Consumer Price Index inflation (CPI) for the year to June 2016 is 0.5% (up from 0.3% for the year to May 2016). While central government no longer use the Retail Price Index inflation (RPI) a number of contractual arrangements at this Council do. The published increase in RPI for the year to June 2016 is 0.9% (up from 0.7% for the year to May 2016).

The Bank of England MPC has recently reduced the base rate and there are indications that it will consider doing so again before the end of the year. This is a reaction to the predicted decline in growth. This action is likely to impact on mortgages which form an element of CPI and RPI and will have a reducing effect on inflation. The inverse of this can be expected from the increase in the cost of imported goods due to the, already seen, reduction in the exchange rate. At this time the inflation indices used in the calculation of growth in the strategic revenue projection given at Appendix 1 have been kept the same as those used by officers in developing the figures for the initial consideration of the MTFS by this Committee on 29th June 2016. The following table sets out the assumptions made:

	Increase	
Employee Costs	1.0%	A base assumption relating to the growth in salary for the year
	0.5%	The annual cost of performance related incremental increases for
	0.2%	Agreed by Policy & resources in February 2016 this increase reflects the growth necessary to fund the national living wage.
Electricity	2.0%	This increase is based on known factors relating to the Council's contract with Laser
Gas	0.0%	There is no expected increase in the cost of Gas
Water	0.0%	There is no expected increase in the cost of water supply or disposal
Fuel	1.0%	A predicted average increase based on previous trends as no forward looking information is available.
Business Rates	0.8%	Based on predicted long term changes in business rates.
Insurance	0.5%	The increase in insurance premiums has been higher in previous years but there have been no significant market issues.
Rent	5.0%	This increase is now confirmed as due for October 2018. The strategic revenue projection has been amended to allow for this. A review of Office Accommodation is being launched.

Service Prioritisation

4.8 As a result of the funding gap described in paragraph 1.6 above, the Council has undertaken an initial assessment of the different services it provides in order to assess to what extent they meet its corporate priorities. This has been expressed in the form of a MoSCoW (must/should/could/won't) analysis. Each service was assigned one of the following four descriptions:

MUST - essential to the Council
SHOULD - important and its absence would weaken the Council
COULD - useful but the Council is still viable without it
WON'T - essential and can wait for now

The standard of service, both current and desired, was then categorised as gold, silver or bronze.

4.9 The outcome of an initial service assessment using this technique is set out at Appendix 2. This indicates that around 70% of services in terms of budget are categorised as 'MUST' and most of the rest are categorised as 'SHOULD'. Even services that are essential need to be delivered as cost-effectively as possible, so the implications of this categorisation are as follows.

- MUST – these services/activities will be addressed as part of our work on transformation. We will consider whether service outcomes can be delivered more cost-effectively in different ways, by carrying out contract / commissioning reviews. We will look for potential efficiency improvements and opportunities to generate additional income. Reports will be made to the relevant service committees to establish objectives, outcomes and options to be assessed.

- SHOULD – these services/activities will be reviewed and options will include reductions in funding and consequent reconfiguration of service scope and levels.

5 FUNDING

Revenue support grant

5.1 On the 10 February 2016 the Department for Communities and Local Government (DCLG) notified the council of the final figure for revenue support grant in 2016/17. At that time the government proposed a four year settlement that the Council may choose to accept. The revenue support grant for 2016/17 is £0.87m and the offer for the following three years 2017/18 to 2019/20 is zero. In addition the Government intend to reduce the business rates available to the Council by £1.589m in the financial year 2019/20. No changes to baseline and tariff charges will be made to allow for this reduction and it can therefore be seen as outside of the current business rates system and more in the nature of a negative revenue support grant.

5.2 At its meeting in June 2016 the Council's Policy and Resources Committee agreed to the principle of accepting the four year settlement and the development of an efficiency plan. The funding assumptions detailed below assume that the settlement provided by the DCLG will be as received up to 2019/20.

Retained business rates

5.3 The Government intends to introduce changes to business rates retention by 2020/21, following on from the end of the proposed four year settlement. The Council has carefully considered the proposals put forward in the Government's consultation and submitted a response.

5.4 The proposals include 100% local retention of business rates along with a series of additional responsibilities and a realignment of the shares of business rates received by each tier of local government. As with the current 50% localisation of business rates, the proposal for 100% localisation will mean substantially less than that amount being made available to Maidstone Council with the vast majority of the resource being redistributed elsewhere within local government. The Council can also expect to lose other specific grants such as Housing Benefit Administration Grant and potentially receive additional responsibilities.

5.5 The strategic revenue projection for 2020/21 and 2021/22 assumes that the impact of 100% retention and the adjusted redistribution by tier will mean that any change in the Council's baseline business rates would be counteracted by loss of other grants so a net zero impact has been assumed.

5.6 The impact of additional responsibilities has been modelled as part of growth pressures on the budget and an estimate of the likely financial impact included in the financial projections.

Business rates growth and the Kent Business Rates Pool

5.7 As a member of the Kent Business Rates Pool the council has the ability to retain more of the income from growth in business rates than it otherwise would. This is because the pool members who are charged a levy (district councils) are sheltered by the pool members who receive a top-up (major preceptors). Under a specific agreement made between Maidstone Borough Council and KCC in 2014/15 and across Kent in 2015/16, the additional benefit is shared with Kent County Council. The shares and their value for the two years the scheme has been in operation are set out below:

SHARE BY PURPOSE		**2014/15 £**	**2015/16 £**	**Estimate 2016/17 £**
Maidstone Borough Council	30%	144,119	30,941	214,000
Kent County Council	30%	144,119	30,941	214,000
Growth Fund	30%	144,119	30,941	214,000
Contingency	10%	48,040	10,314	73,000
	100%	**480,397**	**103,137**	**715,000**

Table: Shares of the Kent Business Rates pool since commencement

5.8 It should be noted that the figure for 2015/16 was less than estimated. This is due to one of the high risk factors of locally retained business rates. The Council saw a higher than expected level of appeals for which a provision was required in 2015/16. This situation was the result of legislative change and is not expected to recur in 2016/17 or later years.

5.9 Previously the Council held the income from growth in reserve and committed it in the year following its receipt. This meant that the resources were not yet committed and the Council had an opportunity to modify its plans for using the resources depending on how much became available. In setting the 2016/17 budget the Council approved the use of the stable element of business rates growth, which is retained by the Council regardless of whether or not it is a member of the pool, into its base budget to maintain overall resource levels. From the current year onwards the earmarked reserve will hold only the growth protected by membership of the pool, with the intention of using it to implement the Council's economic development strategy.

Council Tax Levels

5.10 Total 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 chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions. The tax base for 2015/16 was set at 58,525.4.

5.11 The Council will soon set its tax base for 2017/18 and this will be based on data extracted from the Council Tax records in mid-October 2016.

5.12 A major factor to be considered in setting the tax base for 2017/18 is the agreed scheme of local council tax support. This scheme is undergoing a Kent wide review this year and the Council is consulting with residents on the options for the final scheme. It is currently the intention to report to Members with recommendations for Council in December 2016.

5.13 Until that time the strategic revenue projection is based upon the estimated data used and agreed by this Committee in June 2016 at 59,148.2 for 2017/18.

5.14 The level of council tax increase for 2017/18 is a decision that will be made at Council on 1 March 2017 based on an assumption made by Policy and Resources committee. 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.

5.15 As a general principle, the Council aims 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 are considered when setting the Council Tax along with the strategic revenue projection's assessment of the future reductions in resource levels.

5.16 In considering this issue Members should recognise the need to set a level of council tax commensurate with the level of service provision and to avoid the use of short term decisions that risk the council's medium term liquidity and financial resilience. The actual increase is an issue for Council as a whole.

5.17 For many years the council's ability to increase the level of council tax has been limited firstly by a cap and more recently by the need to hold a referendum for increases over a government set limit. The government limit set last year was the greater of 2% or £5.00. The Council approved an increase of £4.95 (2.1%).

5.18 For planning purposes Policy and Resources Committee has adopted an annual increase in the tax base equivalent to 1% and an increase of £4.95 per annum in the charge, reverting to 2% in 2020/21 when this becomes a greater figure than £4.95.

Local income from fees and charges

5.19 The Council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. The policy is not influenced directly by the MTFS with the exception that charges should be maximised within the limits of the policy.

5.20 In developing the strategic revenue projection for 2016/17 the committee requested that a broad assumption of a 1% increase in future fees and charges be included in the MTFS. To reflect this requirement a £70,000 annual increase in other income is shown in the strategic revenue projection.

5.21 The council has approved a commercialisation strategy which has set a target for net income gained from new and enhanced activities of £1m over the five year period from 2015/16 to 2019/20.

5.22 The delivery of each proposal will be the responsibility of an individual service committee. For this reason the £1m target has not been reflected in the strategic revenue projection until individual committees have considered the level of income achievable

Summary of Resources

5.23 The table below summarises the resources as set out in the strategic revenue projection.

Source	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
Retained Business Rates	3,042	3,132	3,232	3,297	3,324
BR Growth in base budget	600	600	600	600	600
BR Growth not committed in base budget – see para 5.9	576	576	576	576	576
BR Adjustment	0	0	-1,589	-1,621	-1,634
Total All Business Rates	**4,218**	**4,308**	**2,819**	**2,852**	**2,866**
Council Tax	14,527	14,968	15,417	15,878	16,353
Other Income	16,835	16,905	16,975	17,045	17,115
Total Resources	**35,580**	**36,181**	**35,211**	**35,775**	**36,334**

6 CAPITAL PROGRAMME – EXPENDITURE AND FUNDING

6.1 The currently approved capital programme is set out at Appendix 3. The detail has been amended from the approved programme reported to Council on 2nd March 2016 following the approval by the Policy and Resources Committee, on 26th July 2016, of the capital outturn and carry forward of unused capital resources. Resources in earmarked reserves arising from the set aside of New Homes Bonus will total £11.1 million by 31st March 2017. The balance of unutilised resources by the end of the five year programme is currently estimated to be £2.6 million. The New Homes Bonus resources were originally set aside by this Council to assist in the affordability of the Infrastructure Delivery Plan. Resources have been utilised for infrastructure schemes including the Town Centre, the Bridges Gyratory and the Medway Towpath. Some resources have been utilised for commercial property acquisitions and capital expenditure to deliver commercial activity. The Council is currently considering consultation responses concerning the introduction of a Community Infrastructure Levy and it is anticipated that this will be the subject of Public Examination in 2017.

6.2 During 2015/16 £2.1 million of the Council's earmarked resources were used to finance expenditure for which the Council approved prudential borrowing. Should the Council wish to borrow to finance this expenditure it can do so at a later date thus substituting the resources used to finance the expenditure. However, it would be necessary to ensure the revenue resources are available to afford the necessary debt repayments. It is therefore essential to ensure that these regeneration schemes deliver revenue income.

6.3 The current funding assumptions used in the programme are set out in the table below along with the expected total expenditure:

Funding Source	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Earmarked Reserves	11,146	4,998	2,720	1,970	1,456
Capital Grants	450	450	450	450	450
Capital Receipts	771	0	0	0	0
Prudential Borrowing	9,960	15,525	11,000	0	0
Total Resources	**22,327**	**20,973**	**14,170**	**2,420**	**1,906**
Estimated Expenditure	20,870	21,200	13,001	2,314	1,815
Cumulative Balance of Resources	**1,457**	**1,230**	**2,399**	**2,506**	**2,597**

6.4 It remains necessary for officers to complete a full review of the schemes within the programme and the expenditure proposals will be updated in the programme in time for the December meeting of The Policy and Resources committee. The update will include a projection into a further year 2021/22 to match the period of the capital programme with the period covered by the medium term financial strategy.

7 BALANCES AND EARMARKED RESERVES

7.1 As at 1st April 2016 General Fund balances of £4.6 million exist alongside earmarked reserves of £14.3 million. The table below sets out the earmarked reserves held at the beginning of the current year and their purpose:

	1st April 2016 £,000
Capital Support (New Homes Bonus)	9,620
Local Plan (New Homes Bonus)	135
Neighbourhood Planning	107
Business Rates Reserves	4,253
Trading Account Surpluses	179
Total	**14,294**

7.2 The table shows the balance of Capital Support Funding at the beginning of the year. The capital programme set out elsewhere in the MTFS report shows a programme that will spend this resource and the majority of the New Homes Bonus due in 2016/17.

7.3 The Business Rates Reserves are a combination of resources set aside to finance the deficit on the Collection Fund at the end of 2015/16 and the resources held for use on business growth and related economic development projects in 2016/17.

7.4 Trading account surpluses reflect the balance held in surplus on trading accounts such as building control and land charges that cannot generate surpluses for the general fund but can break even over a period of years. These surpluses are utilised in years where the trading accounts are in deficit.

7.5 It should be noted that the General Fund balance of £4.6 million includes a series of assumptions made in prior years about the use of the resources for purposes such as a commercialisation risk and an invest to save fund. These are not set aside in the formal way that earmarked reserves have been.

7.6 The Council has set a lower limit below which the Committee cannot take general fund balances and this is £2 million.

8 BUDGET RISKS

8.1 In preparing a Medium Term Financial Strategy, it is important to consider the risks that pose threats to its implementation. This section sets out the key risks that have been identified and how they can be mitigated.

8.2 The Council is actively seeking to embed a risk management approach as part of its approach to doing business. It has adopted a risk management framework, which incorporates a process for identifying risks and assigning ownership of specific risks at an appropriate management level within the Council. Details of risks are captured in risk registers at a corporate, service and project level.

8.3 The major risk areas that have been identified as potentially threatening the Medium Term Financial Strategy are as follows.

National and local economic environment

8.4 As set out in section 2, the current economic outlook is uncertain. Recession would impact the Council by reducing its income and creating additional cost pressures, for example around homelessness. These risks are mitigated to an extent by holding balances and reserves. These give the Council the ability to manage fluctuations in income and give it time to adapt to changed circumstances.

Price inflation

8.5 Linked to the overall economic position is the specific threat of price inflation. Payroll accounts for the majority of the Council's costs, so wage inflation in particular will have an impact. Risk mitigation is similar to that for overall economic risks.

Changes in government approach to local government financing

8.6 A new government was formed in July 2016 and it remains to be seen whether its approach to local government financing will be the same as the previous government's. Although the Council is not heavily dependent on government grants, it must operate within the overall framework for local government funding, which is set at a national level and is highly prescriptive. Previous governments have taken advantage of the adaptability of local authorities to reduce central funding for local government significantly. In an environment where national finances will continue to be under pressure, further changes cannot be ruled out, notwithstanding the four year funding settlement for local government announced earlier in 2016.

Delivery of savings & efficiencies

8.7 The Council has already committed to delivering £3 million of savings from 2016/17 onwards. This is a major challenge and will place pressure on the Council's capacity for management and change. The risk can be mitigated by effective planning and management but there remains a significant residual risk. The Council is making use of the transitional grant of £394,000 that it is due to receive from government in 2016/17 and 2017/18 to fund work that will help to deliver these savings.

Changed or new responsibilities

8.8 The government's plans for 100% business rates retention involve local government taking on further functions. It is not clear at this stage what functions, if any, will come to this Council, or whether the level of funding will be adequate. Successive national governments have supported a 'new burdens doctrine' that requires Whitehall departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities, as well as how much these policies and initiatives will cost and where the money will come from to pay for them. In practice, there has been considerable variation in the interpretation of this doctrine, and with a large scale transfer of functions there is scope for local authorities to face unfunded burdens.

Unforeseen spending pressures

8.9 Such pressures include the cost of temporary accommodation, which has led to overspends in the Council in recent years, the cost of dealing with planning appeals, and the cost of temporary staff where it has not been possible to make permanent appointments. To an extent these pressures can be mitigated by holding reserves, which are then utilised if there is an unavoidable spending pressure in any given year. However, the resources would need to replenished subsequently. The pressure would in any case have to be addressed as part of budget setting in the following year if it was expected to continue.

Income generation and collection - fees and charges

8.10 Income generated by the Council can be volatile. For example, parking income can be sensitive to changes in the overall economic environment.

Council Tax – Council Tax base and collection rates

8.11 Council Tax income has in the past proved stable and has increased steadily with the growth in the number of homes. Continued growth could be threatened by a downturn in the economy. Collectability of Council Tax could be threatened if a large number of households face joblessness and loss of incomes.

Business rates income – overall level and collection rates

8.12 Business rates income is particularly vulnerable to ratepayer appeals. The Council is less exposed than some authorities, owing to the diverse local economy in Maidstone. However, a general loss of profitability in the retail sector (for example) could lead to a large number of appeals and possible consequent loss of income.

Availability of funding for capital expenditure

8.13 The Council's investment plans depend on the availability of funding, whether through New Homes Bonus, capital receipts, or borrowing through the Public Works Loan Board.

Level of balances and reserves

8.14 As explained above, balances and reserves provide a measure of protection against risks generally. The result is that the overall risk profile of the Council will increase if balances and reserves are depleted.

9 CONSULTATION

Background

9.1 Each year the council as part of the development of the Strategic Plan and MTFS carries out consultation with our businesses and residents and other stakeholders on the priorities and spending of the council. A programme has been proposed that ensures the focus of annual consultations is not repetitive and builds a body of information over time. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.

9.2 Previous consultation has been focused on payment for services by council tax or direct fee at time of use, proposals for savings in discretionary services, request for new savings, variations in the level of customer service, questions on savings proposals and the effect of previous budget savings as well as areas where we should be focusing our efforts to make savings. Our approach has varied from on-line surveys, face to face surveys, public roadshows to on-line budget simulator exercises.

Consultation Approach

9.3 Consultation on the budget in Autumn 2016 will be carried out across a number of channels in a variety of formats including:

- A face to face budget roadshow led by Councillors
- An on-line survey
- Briefings across all our communication channels

9.4 The results of the consultation will inform how resources are prioritised and will be reported to all four service committees as part of the refreshed strategic plan and final medium term financial strategy.