APPENDIX A

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2019/20 – 2023/24

CONTENTS

1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

Background

1.1 The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council is developing a new Strategic Plan, intended to take the place of the existing 2015-2020 Strategic Plan, which will describe and prioritise our corporate objectives. The MTFS sets out how these objectives will be delivered, given the resources available.

1.2 Resources depend first of all on the broad economic environment. The combination of relatively slow economic growth and pressure on government expenditure from other areas of the public sector means that the Council cannot rely on government support to increase spending, and in the worst case may have to cut back. To the extent that it wishes to increase spending, it is likely to have to rely on self-generated resources.

1.3 Most of the Council's income already comes from Council Tax and other local sources, including parking, planning fees and property income. This relative self-sufficiency provides a level of reassurance, but there is considerable uncertainty about the position for 2020/21 onwards. The Government offered a four year funding settlement to local authorities in 2016, covering the years 2016/17 to 2019/20, but after this the position is very uncertain.

1.4 Capital investment faces a different set of constraints. As set out in section 4 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.

Financial Projections

1.5 The strategic revenue projections underlying the current MTFS suggested that a small budget gap, having taken account of savings already planned, would arise in 2019/20, increasing to £1.5 million by the end of the five year period, as follows. The projections were based on a 'neutral' scenario.

Table 1: Current MTFS Revenue Projections 2018/19 – 2022/23

	18/19	19/20	20/21	21/22	22/23
	£m	£m	£m	£m	£m
Total Funding Available	38.8	38.6	38.1	38.2	39.1
Predicted Expenditure	40.3	39.8	40.1	39.6	39.6
Budget Gap	1.5	1.2	2.0	1.4	0.5
Required Savings –	1.5	2.7	4.7	6.1	6.6

Cumulative					
Savings identified - Cumulative	1.6	2.6	3.6	4.5	5.1
Still to be identified	-0.1	0.1	1.1	1.6	1.5

1.6 It is important to note that projections like these can only represent a best estimate of what will happen. In updating the projections, various potential scenarios have been modelled – adverse, neutral and favourable.

1.7 In accordance with legislative requirements the Council must set a balanced budget. Under the 'neutral' scenario there will be a budget gap from 2020/21 onwards, and in the 'adverse' scenario from 2019/20 onwards. The MTFS sets out a proposed approach that seeks to address this.

2. NEW STRATEGIC PLAN

2.1 The Council is developing a new Strategic Plan, intended to take the place of the existing 2015-2020 Strategic Plan. The development of a new Strategic Plan has been brought forward in order to inform the refresh of the Local Plan, which sets out the framework for development in the borough and is due to be completed by April 2022. The new Strategic Plan will likewise inform the whole range of other Council strategies and policies.

2.2 The proposed new Strategic Plan has gone through a thorough process of discussion and refinement over the period June – October 2018 and is due to be approved by Council on 12 December 2018. The current draft sets out eight objectives, as follows:

- Great Environmental Quality
- Well Connected Safe and Empowered Communities
- Embracing Growth
- Renowned for Heritage and Culture
- A decent home for everyone
- Better Transport Systems
- People Fulfil their Potential
- A Thriving Economy.

The purpose of the MTFS is to describe the how the outcomes associated with these objectives can be delivered, given the financial resources available to the Council, and bearing in mind the prioritisation of objectives. 'Financial resources' include both revenue resources, for day-to-day expenditure, and capital resources, for one-off investment that will deliver benefits over more than a year.

2.3 Resources are described below in section 4 of the MTFS. It will be seen that there are constraints on the funding available for the revenue budget, and there are in any case service pressures which must be accommodated. This implies a process of matching resources against the objectives in the Strategic Plan.

2.4 Capital investment is funded from the New Homes Bonus, borrowing and third party contributions such as Section 106 payments on new developments. The constraints in this case are different from those facing revenue expenditure, because the current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital. Capital investment plans also depend on having the capacity, in terms of internal resources, to develop projects, work effectively with partners, and secure third party funding.

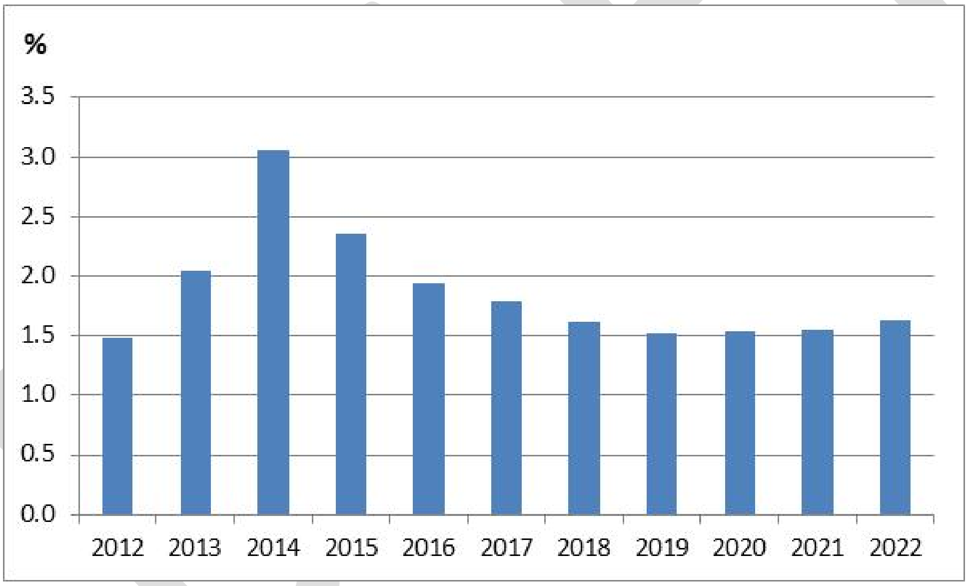
3. NATIONAL CONTEXT

Economic Outlook 2019 – 2024

3.1 The national economy continues to grow, although at a modest rate by historical standards. There was a temporary slowdown in quarter 1 of 2018, but this has now been reversed. The Bank of England expects growth to continue at a rate of between 1.5% - 2% in the medium term.

3.2 The Bank expects that growth will be significantly influenced by the reaction of consumers and businesses to EU withdrawal in 2019. This is important, because consumer spending in particular is an important driver of economic growth. Consumer spending continued to grow after the EU referendum in 2016, thus averting the gloomiest predictions about its effects. Whilst this pattern may continue if there is an orderly exit from the EU, there is a risk that the shock from a 'no-deal' exit could impact consumer spending and lead to a downturn in growth.

Figure 1: Real UK gross domestic product (GDP) growth rate

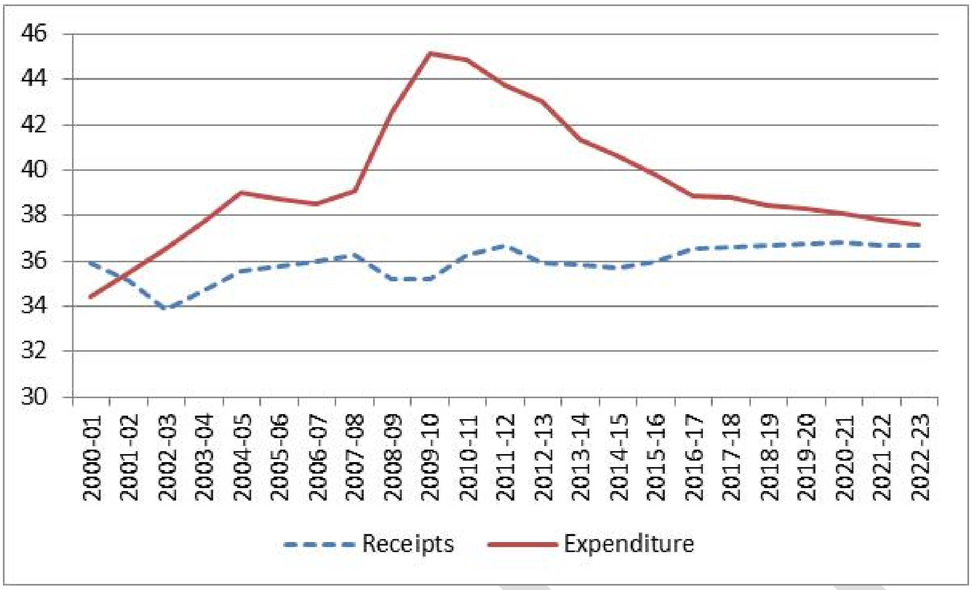


3.3 Consumer Price Inflation (CPI) is currently 2.4%, for the year to September 2018, above the Bank of England's target rate of 2%. The Bank increased interest rates by 0.25% in August, believing that a modest tightening of monetary policy was needed to return inflation to its target.

Public Finances

3.4 Following the financial crisis of 2008 and the demands that it placed on public finances, successive governments have reduced the public sector deficit through an explicit policy of austerity. This has brought public expenditure down to a similar level as a proportion of national income to that in 2007/08, immediately before the financial crisis.

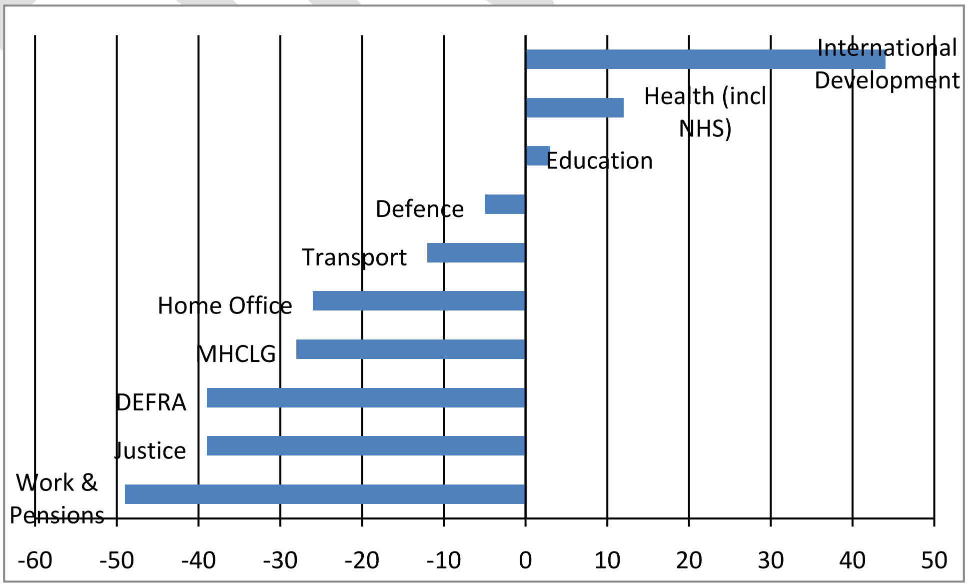
Figure 2: Tax and Spend as a percentage share of national income



The pressure to increase spending, particularly on the NHS and social care, has grown over the past few years. This has led to an overwhelming demand for an end to austerity. It is hard to see how central government can address this pressure without either increasing taxes or borrowing to fund a renewed growth in the deficit.

3.5 Within the overall reduction in public expenditure, there has been a widely disparate pattern between different government departments.

Figure 3: Planned real change to Departmental Expenditure Limits 2010-11 – 2019-20 (per cent)



3.6 MHCLG, which provides central government funding for local authorities, has seen some of the biggest cuts. Even if the policy of austerity is reversed, it is unlikely that local government will see significant benefits given the pressures elsewhere on the public purse, in particular from the NHS.

3.7 The effects of austerity in local government have not been spread evenly between authorities. The LGA, in its Autumn Budget 2018 submission to the government, states that the increasing costs of adult social care and children's social care – services delivered by the upper tier of local government - contribute by far the majority of the funding gap faced by the sector. It is likely that any rebalancing of public spending priorities by central government to reflect an 'end to austerity' will focus on these services, and benefit the upper tier authorities that deliver them, rather than lower tier authorities like Maidstone.

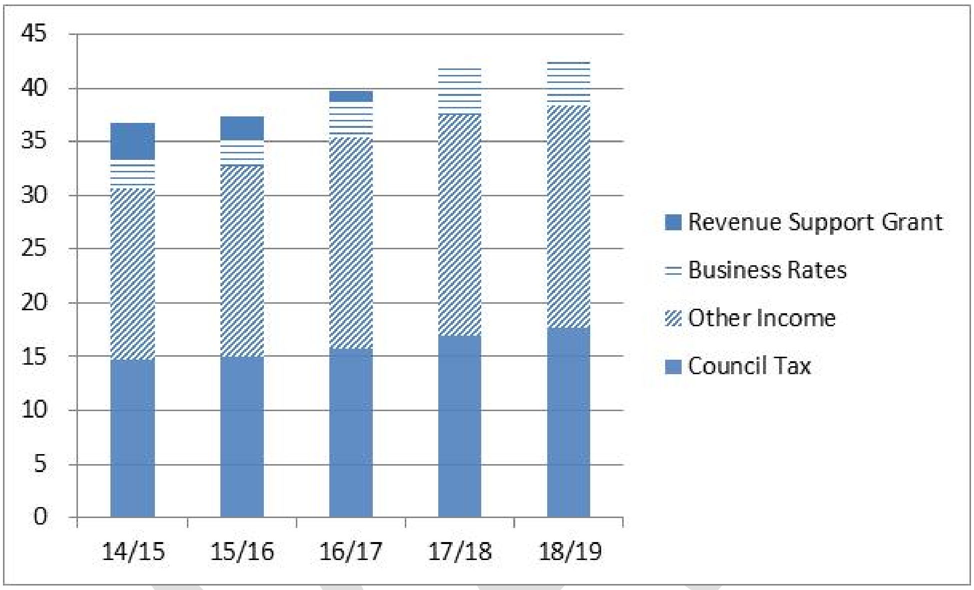
Conclusion

3.8 The combination of relatively slow economic growth and pressure on government expenditure from other areas of the public sector means that the Council cannot rely on government support to increase spending, and in the worst case may have to cut back. To the extent that it wishes to grow, it will depend on self-generated resources.

4. FINANCIAL RESOURCES

4.1 The Council's main sources of income are Council Tax and self-generated income from a range of other sources, including parking, planning fees and property investments. It no longer receives direct government support in the form of Revenue Support Grant; although it collects around £60 million of business rates annually, it retains only a small proportion of this.

Figure 4: Sources of Income



Council Tax

4.2 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.

4.3 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. See table below.

Table 2: Number of Dwellings in Maidstone

	2014	2015	2016	2017	2018
Number of dwellings	67,178	67,721	68,519	69,633	70,843
% increase compared with previous year	0.38%	0.81%	1.18%	1.63%	1.74%

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

4.4 The level of council tax increase for 2019/20 is a decision that will be made by Council based on a recommendation made by Policy and Resources Committee. The Council's ability to increase the level of council tax is limited by the requirement to hold a referendum for increases over a government set limit. The referendum limit for 2018/19 was the greater of

3% or £5.00 for Band D tax payers. Council Tax was increased by the maximum possible, ie £7.29 (3%).

4.5 In the Medium Term Financial Strategy 2018/19 – 2022/23, it was assumed that the Council Tax base would increase by 1.5% per annum for the MTFS period, and Band D Council Tax increases would revert to 2% per annum after 2018/19. In fact, the Government announced in August 2018 that it was minded to set a referendum limit for Council Tax increases in 2019/20 of 3%. This gives the Council the opportunity to generate a higher level of income than projected if it chooses to increase Council Tax by the maximum permissible amount.

Other income

4.6 Other income is an increasingly important source of funding for the Council. It includes the following sources of income:

- Parking
- Shared services
- Commercial property
- Planning fees
- Cremations
- Garden waste collection
- Income generating activity in parks

Where fees and charges are not set by statute, we apply a policy that guides officers and councillors in setting the appropriate level based on demand, affordability and external factors. Charges should be maximised within the limits of the policy, but customer price sensitivity must be taken into account, given that in those areas where we have discretion to set fees and charges, customers are not necessarily obliged to use our services.

4.7 In developing the strategic revenue projection for 2018/19 a broad assumption of a 1% increase in future fees and charges was used for the development of the MTFS, in line with overall inflation assumptions.

Business Rates

4.8 Under current funding arrangements, local government retains 50% of the business rates it collects. The aggregate amount collected by local government is redistributed between individual authorities on the basis of perceived need, so that in practice Maidstone Borough Council receives only around 7% of the business rates that it collects.

4.9 Prior to the 2017 General Election, the Government was preparing to move to 100% business rates retention with effect from 2020. The additional income would have been accompanied by devolution of further responsibilities to local government. However, the need to accommodate Brexit legislation means that there has been no time to legislate for this. Government therefore intends to increase the level of business rates retention to the extent that it is able to do within existing legislation, and plans to introduce 75% business rates retention with effect from 2020/21.

4.10 As with 50% business rates retention, the new 75% business rates retention regime will be linked to a mechanism for rates equalisation to reflect local authorities' needs. These will be assessed based on a 'Fair Funding Review' which is currently under way. The overall amounts to be allocated as part of the Fair Funding Review are also subject to a planned Spending Review covering all government departments in 2019. It is therefore difficult to predict with any degree of accuracy whether the proportion of business rates retained by Maidstone will remain the same, increase or decrease.

4.11 The current local government funding regime gives authorities the opportunity to pool their business rates income and retain a higher share of growth as compared with a notional baseline set in 2013/14. Maidstone has been a member of the Kent Business Rates pool since 2014/15. Its 30% share of the growth arising from membership of the pool is allocated to a reserve which is used for specific projects that form part of the Council's economic development strategy. A further 30% represents a Growth Fund, spent in consultation with Kent County Council. This has been used to support the Maidstone East development.

4.12 It should be noted that in 2020, the baseline will be reset, so all growth accumulated to that point will be reallocated between local authorities as described in paragraph 4.10 above.

4.13 A further element of growth has been retained locally for one year only in 2018/19 as a result of Maidstone's participation in the Kent & Medway 100% Business Rates Retention pilot. Kent & Medway local authorities were successful in bidding for pilot status, which means that 100% of business rates growth, rather than 50%, is retained locally. The additional growth is split between a Financial Sustainability Fund (70%) and a Housing and Commercial Growth Fund (30%).

4.14 The Financial Sustainability Fund (FSF) is designed to support local authorities in managing the pressures associated with growth and is distributed according to a formula which provides each authority with a guaranteed minimum amount and then links growth in funding with population increase and business rates increase (as a proxy for commercial growth) over the past five years. Our share of the FSF was estimated to amount to £640,000.

4.15 The Housing and Commercial Growth Fund (HCGF) is designed to pool a sufficiently large level of resources to make a significant difference to support future delivery, where outcomes can be better achieved by local authorities working together across a wider area. The HCGF funds have been pooled in three 'clusters', for North Kent, East Kent and West Kent, with the distribution based on each area's share of total business rate receipts. Allocation of the funds is determined by the relevant Council Leaders in each Cluster.

4.16 A bid has been submitted to form a pilot again in 2019/20 and the outcome is expected to be announced in December 2018.

4.17 Total projected business rates income for 2018/19 and the uses to which it will be put are summarised in the table below.

Table 3: Projected Business Rates Income 2018/19

	£000	
Business Rates baseline income	3,136	Included in base budget
Growth in excess of the baseline	1,237	Included in base budget
Pooling gain (MBC share)	297	Funds Economic Development projects
Pooling gain (Growth Fund)	297	Spent in consultation with KCC, eg on Maidstone East
Financial Sustainability Fund (initial estimate)	640	Allocated to 13 projects as agreed by Policy & Resources Committee
Housing & Commercial Growth Fund	-	Pooled and allocated by North Kent Leaders
Total	5,310	

4.18 Whilst the proportion of total business rates income retained by the Council is relatively small, the amounts retained have grown significantly since the introduction of 50% business rates retention. Pressure on the government to reduce the burden of business rates and the unpredictability of future arrangements for equalising business rates income between Councils place future income growth from this source at risk.

Revenue Support Grant

4.19 Maidstone no longer benefits directly from central government support in the form of Revenue Support Grant. Indeed, the existing four year funding settlement contains a mechanism for government to levy a 'tariff / top-up adjustment' – effectively negative Revenue Support Grant – on local councils that are considered to have a high level of resources and low needs. Maidstone was due to pay a tariff / top-up adjustment of £1.589 million in 2019/20. However, the government faced considerable pressure to waive negative RSG and now proposes to remove it in the 2019/20 Local Government Finance Settlement.

4.20 The negative RSG of £1.589 million was built into the current MTFS and savings plans developed to offset its impact. Rather than reverse these savings, it is proposed in the new MTFS to hold the £1.589 million as a contingency for future funding pressures, which will be applied to cushion the impact of likely reductions in resources in 2020/21.

Balances and Earmarked Reserves

4.21 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. However, the

Council has agreed to set £2 million as the minimum General Fund balance.

4.22 Within the General Fund balance, amounts have been allocated for specific purposes. These amounts do not represent formal commitments. Instead, they represent the level of reserves considered to be required for specific purposes, including asset replacement, commercialisation and Invest to Save projects.

4.23 In addition to uncommitted General Fund balances, the Council holds reserves that are earmarked for specific purposes. Full details of reserves held are set out below.

Table 4: General Fund balances

	31.3.17	31.3.18
	£000	£000
General Fund		
Commercialisation – contingency	500	500
Invest to Save projects	547	500
Amounts carried forward from 2016/17	456	416
Amounts carried forward from 2017/18	-	1,044
Unallocated balance	5,855	7,041
General	9,329	9,502
Earmarked Reserves		
New Homes Bonus funding for capital projects	7,214	1,404
Local Plan Review	336	200
Neighbourhood Plans	64	70
Accumulated Surplus on Trading Accounts	243	51
Business Rates Growth Fund	158	692
Sub-total	8,014	2,418
Total General Fund balances	**17,343**	**11,920**

4.24 General Fund balances have fallen from £17.3 million at 31 March 2017 to £11.9 million at 31 March 2018. This arises from deployment of the New Homes Bonus for capital expenditure, including the acquisition of temporary accommodation for homeless people and investment property. This is in line with the Council's explicit strategy of using New Homes Bonus for capital investment.

4.25 The unallocated balance comfortably exceeds the £2 million minimum. It represents 37% of the net revenue budget, which is well in excess of the 10% benchmark that is sometimes cited as a reasonable level. It can therefore be seen that the level of reserves is adequate without being excessive.

Capital Funding

4.26 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing has not been required so far in 2018/19, but is likely to be in subsequent years. The cost of any borrowing is factored into the MTFS financial projections.

4.27 There has been a reduction of the period for which New Homes Bonus would be paid from six years to five in 2017/18 and then to four in 2018/19. An allowance is also now made in calculating New Homes Bonus for the natural growth in housing from 'normal' levels of development. Given other pressures on local government funding, and given the progressive reduction in the level of New Homes Bonus, it is not clear whether New Homes Bonus will continue to exist, at least in its current form. under the new Local Government funding regime to be implemented from 2020.

4.28 Many of the external grants that were available to the council for funding capital projects in the past no longer exist. However, external funding is sought wherever possible and the Council has been successful in obtaining Government Land Release Funding for its housing developments and is seeking ERDF funding for the Kent Medical Campus Innovation Centre.

4.29 Funding is also available through developer contributions (S 106) and the Community Infrastructure Levy (CIL). The Community Infrastructure Levy was introduced in Maidstone in October 2018.

4.30 The current funding assumptions used in the programme are set out in the table below.

Table 5: Capital Programme Funding

Funding Source	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	TOTAL £000
New Homes Bonus	3,200	3,400	0	0	0	6,600
Disabled Facilities Grants	800	800	800	800	800	4,000
Internal Borrowing	18,401	0	0	0	0	18,401
Prudential Borrowing	4,132	17,983	8,086	7,225	7,225	44,651
Total Resources	**26,533**	**22,183**	**8,886**	**8,025**	**8,025**	**73,652**

A review of the schemes in the capital programme will take place during the course of Autumn 2018. Proposals will also be considered for new schemes to be added to the capital programme. The affordability of the capital programme will be considered as part of this review, as it is essential that any borrowing to fund the capital programme is sustainable and affordable in terms of its revenue costs.

4.31 Under CIPFA's updated Prudential Code, the Council is now required to produce a Capital Strategy, which is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.32 The outcome of the capital programme review and a proposed Capital Strategy will be considered by Policy and Resources Committee in January 2019 and an updated capital programme was recommended to Council for approval.

5. FUTURE SCENARIOS

5.1 Owing to uncertainty arising from the economic environment, and from the lack of clarity about the government's plans for local government funding, financial projections have been prepared for three different scenarios, as follows.

1. Favourable

The UK achieves an orderly exit from the EU on terms that are widely perceived as favourable. The economy continues to grow, allowing the government to increase public expenditure. Local authorities achieve a positive outcome from the Spending Review and Maidstone shares in the benefits through the Fair Funding Review. Government gives local authorities greater flexibility in setting local taxes.

2. Neutral

The UK negotiates an agreed exit from the EU, but continued slow growth in the national economy compels the government to prioritise public spending in areas of high demand such as the NHS. As a result, local government sees no growth in real terms. Business rates income is distributed to areas of the country and of the local government sector that are perceived as having the greatest need, to Maidstone's detriment. Council Tax increases continue to be capped in line with price inflation.

3. Adverse

Failure to achieve an agreed Brexit deal damages international trade and consumer confidence, leading to a sharp slowdown in the economy. Options for the government to meet spending pressures are severely limited, compelling it to divert business rates income away from local government, leading to a significant budget gap for Maidstone. The amount that local authorities can raise by way of Council Tax is limited in order to limit overall public spending.

Details of key assumptions underlying each of these scenarios are set out below.

Council Tax

5.2 It is assumed in the adverse and neutral scenarios that the Council will take advantage of the flexibility offered by Government and will increase Council Tax by 3% in 2019/20, reverting to 2% in 2020/21. In the 'favourable' scenario outlined above the Council would increase Council Tax by 3% per annum for the whole five year period.

5.3 The other key assumption regarding Council Tax is the number of new properties. The number of new properties has been increasing in recent years, from a low of 0.38% in 2014 to 1.74% in 2018. The rate of increase nevertheless remains lower than that implied by Local Plan new homes targets. Assumptions are as follows:

Favourable – 3%
Neutral – 2%
Adverse – 1%

Business Rates

5.4 As described above, the Council receives only a small proportion of the business rates that it actually collects. After 2020, this proportion will be adjusted to reflect the findings of the Fair Funding Review and the Spending Review. It is very difficult to predict what this will mean in practice. However, for the purposes of revenue projections, a number of assumptions have been made.

5.5 Assuming that the starting point in the government's calculations will be Maidstone's perceived level of need, it should be noted that the current four year funding settlement, which is likewise based on perceived local authority needs, incorporated a negative revenue support grant payment of £1.6 million in 2019/20. The starting point for future business rates income is therefore assumed to be the current baseline share of business rates income, £3.2 million, less £1.6 million. It is not accepted that this would be a fair allocation of business rates income but it is prudent to make this assumption for forecasting purposes.

5.6 A further factor to be considered is the resetting of the government's business rates baseline in 2020/21. This represents the level above which the Council benefits from a share in business rates growth. It is likely that the government will reset the baseline in order to redistribute resources from those areas that have benefitted most from business rates growth in the years since the current system was introduced in 2013, to those areas that have had lower business rates growth. Accordingly, cumulative business rates growth has been removed from the projections for 2020/21, then is gradually reinstated from 2021/22.

5.7 In addition, as provided for in the current MTFS, it is appropriate to include a provision, currently £1.3 million, to allow for additional burdens placed on the Council following the end of the current four year settlement. Originally it was expected that the Council might face additional responsibilities under 100% business rates retention from 2020/21 and a provision of £1.3 million was made in the MTFS to allow for this. Even if 100% business rates retention is not now introduced as originally intended, the pressures on UK-wide public finances mean that the Council risks corresponding burdens, whether in the form of additional responsibilities or an increased tariff / top-up adjustment. This provision is included in 2021/22, rather than in 2020/21, as it is likely that the government will dampen the impact of any adverse changes arising from the new post-2020 financial settlement, and spread them over at least two years.

5.8 Given these assumptions, the specific assumptions for business rates growth in each scenario are as follows:

Favourable –3% increase in multiplier plus 2% growth in base

Neutral – 2% increase in multiplier plus 1% growth in base
Adverse – 1% increase in multiplier plus 0% growth in base

Fees and Charges

5.9 The projections imply that fees and charges will increase in line with overall inflation assumptions. For the Council, the main component of inflation is pay inflation. In practice, it is not possible to increase all fees and charges by this amount as they are set by statute. Accordingly, the actual increase in income shown in the projections is somewhat lower than the inflations assumptions.

5.10 Details of inflation assumptions are as follows:

Favourable – 3%
Neutral – 2%
Adverse – 1%

Inflation

5.11 The annual rate of increase in Consumer Price Index inflation (CPI) for the year to September 2018 was 2.4%. Although wage inflation in the public sector has been below this level, there is increasing political pressure to relax the limits on public sector pay increases.

5.12 The following table sets out the assumptions made for the purposes of preparing the initial set of Strategic Revenue Projections.

Table 6: Inflation Assumptions

	Favourable	Neutral	Adverse	Comments
Employee Costs	1.00%	2.00%	3.00%	Neutral assumption is in line with the most recent pay settlement and government inflation targets
	0.50%	0.50%	0.50%	The annual cost of performance related incremental increases for staff
Electricity	8.00%	11.00%	14.00%	Based on guidance from supplier
Gas	8.00%	10.00%	12.00%	Based on guidance from supplier
Water	-2.00%	0.00%	0.00%	Decrease in prices expected from deregulation of the water supply market
Fuel	1.00%	2.00%	3.00%	A predicted average increase based on previous trends as no forward looking information is available.
Insurance	2.00%	3.00%	4.00%	A predicted average increase based on previous trends as no forward looking information is available.
General	1.00%	2.00%	3.00%	2% is the government’s target inflation rate but the current level of CPI inflation is 2.4%

Service Spend

5.13 Strategic Revenue Projections currently assume that service spend will remain as set out in the existing MTFS, so savings previously agreed by Council will be delivered and no further growth arising from the new Strategic Plan is incorporated.

5.14 The projections include provision for the revenue cost of the capital programme, comprising interest costs (3%) and provision for repayment of borrowing (2%).

Summary of Projections

5.15 A summary of the projected budget gaps under each of the scenarios is set out below.

Table 7: Projected Budget Gap 2019/20 – 2023/24

	19/20	20/21	21/22	22/23	23/24
	£m	£m	£m	£m	£m
Scenario 1 – Favourable					
Budget Gap[1]	0.2	0.9	0.2	-1.1	-1.5
Required Savings – Cumulative	0.2	1.1	1.3	0.2	-1.3
Savings identified to date[2]	-1.0	-2.0	-2.9	-3.5	-3.5
Budget surplus	**-0.8**	**-0.9**	**-1.6**	**-3.3**	**-4.8**
Scenario 2 – Neutral					
Budget Gap[1]	1.1	2.0	1.5	0.4	0.2
Required Savings – Cumulative	1.1	3.1	4.6	5.0	5.2
Savings identified to date[2]	-1.0	-2.0	-2.9	-3.5	-3.5
Savings to be identified	**0.1**	**1.1**	**1.7**	**1.5**	**1.7**
Scenario 3 – Adverse					
Budget Gap[1]	1.7	2.7	2.4	1.4	1.4
Required Savings – Cumulative	1.7	4.4	6.8	8.2	9.6
Savings identified to date[2]	-1.0	-2.0	-2.9	-3.5	-3.5
Savings to be identified	**0.7**	**2.4**	**3.9**	**4.7**	**6.1**

[1] A positive figure here indicates a budget gap; a negative figure (-) indicates a surplus
[2] Savings included in existing 2018/19 – 2022/23 MTFS / Efficiency Plan – see Appendix B
[3] See Appendix C for detailed projections

For illustrative purposes, the following table shows the equivalent neutral scenario if Council Tax were frozen at 2018/19 levels (£252.90 for Band D):

Table 8: Projected Budget Gap – Council Tax freeze

	19/20	20/21	21/22	22/23	23/24
	£m	£m	£m	£m	£m
Scenario 2 – Neutral but freeze Council Tax					
Budget Gap	1.6	2.3	1.9	0.8	0.6
Required Savings – Cumulative	1.6	3.9	5.8	6.6	7.2
Savings identified to date[2]	-1.0	-2.0	-2.9	-3.5	-3.5
Savings to be identified	**0.6**	**1.9**	**2.9**	**3.1**	**3.7**

The effect of freezing Council Tax is cumulative, and would lead by the end of the five year MTFS period to a budget gap £2 million greater than in the base case projections.

Conclusion

5.16 Under the neutral and adverse scenarios, there is a significant budget gap from 2020/21 onwards. This reflects the assumptions made about the likely outcome for the Council from the new local government funding arrangements that are due to come into effect in that year. Whilst this does not affect the budget position for next year, 2019/20, the Council needs to have credible plans to address projected future budget deficits.

6. CURRENT SPENDING PLANS

6.1 This section sets out current budgeted expenditure by strategic objective, and describes planned savings and known budget pressures. The purpose is to allow an assessment of whether current spending plans reflect strategic objectives.

6.2 Total spend by strategic objective is summarised below. Note that objectives have been allocated to Committees according to each Committee's primary focus. However, the individual services that support delivery of a particular objective may fall within the remit of more than one Committee. Corporate expenditure that supports all strategic objectives has been omitted from this analysis, rather than allocated to services using the CIPFA 'full costing' approach set out in its Service Reporting Code of Practice, as this practice tends to obscure the direct cost of service delivery.

Table 9: 2018/19 Revenue and Capital Budgets

C'tee	Objective	2018/19 Revenue Budget		
		Expenditure	Income	Net
		£000	£000	£000
CHE	Great Environmental Quality	6,393	-1,873	4,519
	A Decent Home for Everyone	2,501	-955	1,547
	Well Connected Safe and Empowered Communities	1,907	-386	1,521
	People Fulfil their Potential	441	-152	289
HCL	Renowned for Heritage & Culture	4,351	-2,958	1,393
SPS & T	Embracing Growth	3,625	-2,750	876
	Better Transport Systems	2,226	-4,377	-2,151
P & R	A Thriving Economy	875	-482	393

C'tee	Objective	2018/19 Capital Programme		
		Expenditure	External Cont'n	Net
		£000	£000	£000
CHE	Great Environmental Quality	830	-0	830
	A Decent Home for Everyone	13,566	-0	13,566
	Well Connected Safe and Empowered Communities	0	-0	0
	People Fulfil their Potential	1,192	-1,192	0
HCL	Renowned for Heritage & Culture	3,886	-0	3,886
SPS & T	Embracing Growth	760	-160	600
	Better Transport Systems	150	-0	150
P & R	A Thriving Economy	5,239	-0	5,239

Table 10: Great Environmental Quality

	2018/19 Revenue Budget			Future
	Expenditure	**Income**	**Net**	**Savings**
	£000	£000	£000	£000
Household Waste Collection	3,343	-1,377	1,967	-44
Street Cleansing & Depot	2,423	-208	2,214	0
Environmental Enforcement	241	0	241	-125
Floods, Drainage and Medway Levy	141	0	141	0
Grounds Maintenance - Commercial Income	127	-100	27	-50
Commercial Waste Collection	117	-188	-71	0
Total Revenue Budget	6,393	-1,873	4,519	-219

	2018/19 Capital Programme			Future
	Expenditure	**External contribution**	**Net**	**years**
	£000	£000	£000	£000
Flood Action Plan	500	0	500	563
Public Realm Capital Improvements	150	0	150	50
Commercial Waste	180	0	180	0
Total Capital Programme	830	0	830	613

6.3 The core services that deliver this objective are street cleansing and waste collection. Not only are these key statutory services, but they have also been successful in developing income streams to offset costs, including commercial waste collection, household green waste collections and grounds maintenance for third parties. Savings are projected for 2019/20 from growing grounds maintenance and garden waste income. A saving of £125,000 proposed in the existing MTFS from consolidating enforcement across the Council (environment, planning and parking) is not now expected to be delivered and alternative savings will have to be sought.

6.4 Future expenditure pressures can be expected to arise from the impact of inflation indexation on the waste collection contract. In the longer term, commissioning a new contract when the current one expires in 2022 will involve one-off costs. The current contract offers very good value and it may not be possible to replicate this with a new contract.

6.5 Projected capital expenditure includes £1.1 million for flood alleviation measures, £180,000 in 2018/19 for a new Commercial Waste vehicle and £200,000 in total for a range of public realm capital schemes. Although no external contributions are shown for the Flood Action Plan in 2018/19, it is likely that in practice schemes will be delivered in partnership with the

Environment Agency and/or Kent County Council, thus achieving greater impact from the investment.

Table 11: A Decent Home for Everyone

	2018/19 Revenue Budget			Future
	Expenditure	**Income**	**Net**	**savings**
	£000	£000	£000	£000
Homelessness	2,146	-606	1,540	-100
Other Housing Services	321	-133	188	0
Housing Development & Regeneration	35	-217	-182	-1,540
Total Revenue Budget	2,501	-955	1,547	-1,640

	2018/19 Capital Programme			Future
	Expenditure	**External contribution**	**Net**	**years**
	£000	£000	£000	£000
Housing Development & Regeneration	9,066	0	9,066	25,117
Temporary Accommodation	4,500	0	4,500	2,400
Total Capital Programme	13,566	0	13,566	27,517

6.6 The Council's statutory responsibilities under homelessness legislation have led to significant growth in this budget over the past few years. Numbers in temporary accommodation have grown still further with implementation of the Homelessness Reduction Act. The costs of providing temporary accommodation are offset by housing benefit but this cannot always be recovered. One-off grant funding has been provided by central government to help the Council fulfil its obligations. However, this funding is only temporary.

6.7 The capital programme includes £4.5 million for the purchase of units for temporary accommodation in the current financial year. £600,000 per annum is currently included in the capital programme for future years at this stage.

6.8 £34 million is included in the capital programme for housing and regeneration schemes. Three schemes – Union Street, Brunswick Street and Lenworth House - are currently under way. Future schemes remain to be identified. Although no external contribution is shown in 2018/19, the overall scheme costs for Union Street and Brunswick Street will be offset by sales of units on the open market and transfer of the social housing component to MHS Homes, and by a Government Land Release Funding grant of £658,000.

Table 12: Well Connected Safe and Empowered Communities

	2018/19 Revenue Budget			Future
	Expenditure	Income	Net	savings
	£000	£000	£000	£000
Community Partnerships & Resilience	523	-32	491	0
Regulatory Services	796	-333	463	0
Voluntary Sector Grants	246	0	246	-80
Parish Services Scheme	127	0	127	0
CCTV	214	-21	193	-100
Total Revenue Budget	1,907	-386	1,521	-180

6.9 The Council has a number of regulatory duties in this area which are met through shared licensing and environmental health services. Other than these services, expenditure is mainly discretionary in nature; currently a significant portion of the budget is devoted to delivering the CCTV service. Savings are projected in this service, predicated on the recommissioning project which is currently under way.

Table 13: People Fulfil their Potential

	2018/19 Revenue Budget			Future
	Expenditure	Income	Net	Savings
	£000	£000	£000	£000
Public Health	441	-152	289	0
Total Revenue Budget	441	-152	289	0

	2018/19 Capital Programme			Future
	Expenditure	External contribution	Net	Years
	£000	£000	£000	£000
Disabled Facilities Grants	1,192	1,192	0	3,200
Total Capital Programme	1,192	1,192	0	3,200

6.10 The Council's responsibilities in this area are generally exercised on behalf of other authorities, although there is an element of residual discretionary spend within Public Health.

Table 14: Renowned for Heritage & Culture

	2018/19 Revenue Budget			**Future**
	Expenditure	**Income**	**Net**	**savings**
	£000	£000	£000	£000
Museums & Culture	1,257	-182	1,075	-169
Parks & Open Spaces	1,867	-966	900	-97
Tourism, Festivals & Events	196	-68	128	-50
Sport & Leisure	229	-381	-151	0
Bereavement Services	802	-1,361	-559	0
Total Revenue Budget	4,351	-2,958	1,393	-316

	2018/19 Capital Programme			**Future**
	Expenditure	**External contribution**	**Net**	**years**
	£000	£000	£000	£000
Mote Park Dam Works	1,300	0	1,300	600
Mote Park Visitor Centre	562	0	562	1,073
Mote Park Adventure Zone and Other Improvements	515	0	515	375
Museum Development Plan	175	0	175	260
Continued improvements to Play Areas	881	0	881	0
Crematorium Development Plan	353	0	353	0
Other Parks Improvements	100	0	100	0
Total Capital Programme	3,886	0	3,886	2,308

6.11 Services in this area are principally discretionary and include the museum, leisure services and bereavement services.

6.12 The area is planning £50,000 of operating savings at the Museum and projects £119,000 from a potential saving on business rates. Further income generation is projected from Mote Park, including £57,000 (£114,000 in a full year) from the Adventure Zone and £50,000 from the new Visitor Centre café. Festivals and Events are projected to reduce expenditure, on the basis that events should be self-funding.

6.13 Significant capital investment continues to be planned in Mote Park, including the Visitor Centre and works required to ensure flood safety. Capital investment at the Museum is relatively modest and it is hoped that these will unlock matched funding from other sources.

Table 15: Embracing Growth

	2018/19 Revenue Budget			Future
	Expenditure	Income	Net	savings
	£000	£000	£000	£000
Development Management	1,464	-1,674	-210	0
Planning Policy	606	-21	585	-50
Planning Support (Shared Service)	843	-675	168	0
Planning Enforcement	335	0	335	-40
Building Control	376	-379	-2	0
Total Revenue Budget	**3,625**	**-2,750**	**876**	**-90**

	2018/19 Capital Programme			Future years
	Expenditure	External contribution	Net	
	£000	£000	£000	£000
Infrastructure Delivery	600	0	600	2,400
Section 106 Contributions	160	-160	0	1,332
Total Capital Programme	760	-160	600	3,732

6.14 This objective is delivered primarily through the planning service, which is a statutory service generating fees which cover some, but not all of its costs.

6.15 Additional expenditure of £200,000 per annum has been built into the MTFS for work on the Local Plan refresh up to 2021/22, when it is expected to drop out of the budget.

Table 16: Better Transport Systems

	2018/19 Revenue Budget			Future
	Expenditure	Income	Net	savings
	£000	£000	£000	£000
Parking Services	1,612	-3,985	-2,373	-300
Park & Ride	580	-392	188	-75
Network & Traffic Management	34	0	34	0
Total Revenue Budget	2,226	-4,377	-2,151	-375

	2018/19 Capital Programme			Future years
	Expenditure	External contribution	Net	
	£000	£000	£000	£000
Bridges Gyratory Scheme (residual budget)	150	0	150	0
Total Capital Programme	150	0	150	0

6.16 The services in this area are primarily discretionary, but thanks to the Council's parking service deliver a strong positive contribution. £150,000 of further income in future years is built into the MTFS arising from expected future growth above and beyond inflation.

6.17 Some of Parking income is currently re-invested in the Park and Ride service. This contribution to Park and Ride is planned to reduce by £75,000 next year.

Table 17: A Thriving Economy

	2018/19 Revenue Budget			Future savings
	Expenditure	Income	Net	
	£000	£000	£000	£000
Economic Development	382	-4	378	-7
Market	253	-312	-59	0
Business Terrace	240	-166	74	0
Total Revenue Budget	875	-482	393	-7

	2018/19 Capital Programme			Future years
	Expenditure	External contribution	Net	
	£000	£000	£000	£000
Town Centre Regeneration	2,540	0	2,540	0
Property Investment	2,403	0	2,403	10,000
Maidstone East	296	0	296	0
KMC Innovation Centre	TBA	TBA	TBA	TBA
Total Capital Programme	5,239	0	5,239	10,000

6.18 Expenditure in this area is primarily discretionary. In addition to the revenue budgets shown above, the Business Rates Pool is used to support Economic Development. The Business Rates Pool has been subsumed into the Business Rates Retention Pilot in 2018/19 but a contribution continues to be payable to Economic Development. It remains to be seen whether a similar funding structure will be available under the new local government funding arrangements due to be implemented in 2020/21.

6.19 The capital programme promotes a thriving local economy, both through providing infrastructure and through the council’s commercial property investment, which is focused entirely on Maidstone borough, such that it achieves the two-fold purpose both of generating investment returns and supporting the local economy.

7. MATCHING RESOURCES TO STRATEGIC OBJECTIVES

7.1 It is inherent in the Medium Term Financial Strategy that the Council matches available resources to strategic objectives, such that income and expenditure are balanced and any budget gap is eliminated. In addition to the legal requirement to set a balanced budget for 2019/20, the Council needs to have credible plans in place to address any budget gap in subsequent years. In the interests of prudence, these plans need to address not only a neutral set of projections but also the potential adverse scenario outlined above.

7.2 Current spending plans, as set out in the previous section, will be reviewed both in the light of the overall budget gap and the proposed new strategic objectives. Current plans reflect service requirements and existing strategic priorities. In many cases, service requirements flow from the Council's statutory responsibilities, but there may be scope for saving where it is felt that the statutory outcomes can be delivered at lower cost, or demand can be managed such that expenditure is reduced.

7.3 The distinction between 'statutory' and 'discretionary' services is not always clear-cut. There is usually a discretionary element in the way in which a statutory service is delivered and many discretionary services have developed from a core statutory obligation.

7.4 Existing discretionary spending reflects previous strategic decisions, and in these areas, where the Council has no specific statutory responsibilities, there is a measure of flexibility which would allow the Council to re-prioritise spending based on its latest strategic objectives. Areas of spending that fall within this category include CCTV, Park and Ride and Voluntary Sector Grants.

7.5 Note that the focus of re-prioritisation here is on the revenue budgets. However, to be effective, it is likely that it would need to be accompanied by significant one-off spending, both in exiting service areas that are no longer supported, and in investing for the future in new priority areas.

7.6 There may also be the opportunity to generate additional income to offset expenditure, either by growing existing sources of income or by developing new sources of income. Particularly in the latter case, one-off investment in staff resources or cash is likely to be required, so a clear business case for the investment will be necessary.

7.7 Based on the above discussion about strategic priorities and the flexibility afforded offered by a review of discretionary areas of spend, it is proposed that budget proposals are developed according to the following principles.

Revenue savings will be sought in:

- Discretionary services which are not strategic priorities.
- Statutory services which are not strategic priorities, where there is scope for reconfiguring services to reduce costs.

- Improved efficiency in delivering strategic priorities.
- New income generation and identification of external funding.

These principles will be applied both to service expenditure as detailed in section 6 and to corporate overheads.

Revenue growth will be built into the budget where strategic priorities cannot be delivered within existing revenue budgets, provided this can be accommodated by making savings elsewhere.

Capital schemes will be reviewed and developed so that investment is focused on strategic priorities.

7.8 It was acknowledged in preparing the MTFS for the five years 2018/19 – 2022/23 that the size of the potential revenue budget shortfall meant that no single initiative could be expected to close the gap. Accordingly, a blend of different generic approaches were taken, each of which have contributed to the £3.5 million of savings in the current projections. It is likely that budget savings will continue to come from a range of different sources. If an individual saving is not delivered, the wide spread of approaches and savings ideas means that overall risk is minimised.

7.9 To the extent that additional resources are required to deliver strategic objectives, budget proposals will transfer funding from low priority objectives to higher priority objectives. Budget proposals will be developed during November 2018, prior to consideration by Service Committees and the wider stakeholder group in December 2018 – January 2019. Contingency plans will address the adverse scenario, in order that the Council is suitably prepared for this eventuality. It is currently planned to recommend budget proposals to Council based on the neutral scenario, but this may change depending on developments in the overall economy and local government funding environment.

8. RISK MANAGEMENT

8.1 As indicated in the previous sections, the Council's MTFS is subject to a high degree of risk and certainty. In order to address this in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

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

- Failure to contain expenditure within agreed budgets
- Fees & Charges fail to deliver sufficient income
- Commercialisation fails to deliver additional income
- Planned savings are not delivered
- Shared services fail to perform within budgeted levels.
- Council holds insufficient balances
- Inflation rate predications underlying MTFS are inaccurate
- Adverse impact from changes in local government funding
- Constraints on council tax increases
- Capital programme cannot be funded
- Increased complexity of government regulation
- Collection targets for Business Rates & Council Tax collection missed
- Business Rates pool / pilot fails to generate sufficient growth.

8.3 It is recognised that this is not an exhaustive list. By reviewing risks on a regular basis, it is expected that any major new risks will be identified and appropriate mitigations developed.

8.4 An assessment of the relative impact and likelihood of the risks identified is set out below.

Table 18: Budget Risk Matrix

Likelihood	5					
	4			L		
	3		B	G, M		
	2		E	C,F	A,D,H	J
	1		I,K			
		1	2	3	4	5
		Impact				

Black – Top risk

Red – High risk

Amber – Medium risk

Green – Low risk

Blue – Minimal risk

<u>Key</u>

A. Failure to contain expenditure within agreed budgets
B. Fees and Charges fail to deliver sufficient income
C. Commercialisation fails to deliver additional income
D. Planned savings are not delivered
E. Shared services fail to meet budget
F. Council holds insufficient balances
G. Inflation rate predictions underlying MTFS are inaccurate
H. Adverse impact from changes in local government funding
I. Constraints on council tax increases
J. Capital programme cannot be funded
K. Increased complexity of government regulation
L. Collection targets for Council Tax and Business Rates missed
M. Business Rates pool / pilot fails to generate sufficient growth

8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

9. CONSULTATION

9.1 Each year the Council carries out consultation as part of the development of the MTFS. This year the Council is combining the Residents' Survey on the proposed new Strategic Plan with questions about the Council's budget priorities. The results of this consultation will be used to inform the preparation of detailed budget proposals.

9.2 As a second step, consultation will be carried out in December 2018 – January 2019 on the detailed budget proposals. Individual Service Committees will consider the budget proposals relating to the services within their areas of responsibility. Full details of the proposals will be published and residents' and businesses' views are welcomed.

Document History

Date	Description	Details of changes
30.10.18	First draft to Service Committees	