MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2018/19 – 2022/23

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.

1.2 The broad economic context for the Strategy is one of considerable uncertainty, particularly in the final three years of the planning period. The Government offered a four year funding settlement to local authorities in 2016, covering the years 2016/17 to 2019/20, which provides some certainty about the level of income that the Council can expect for the first two years covered by the MTFS, ie 2018/19 and 2019/20. However, the position for 2020/21 onwards is very uncertain.

1.3 The Government's four year funding offer was conditional on the council preparing an Efficiency Plan setting out proposals for utilising the available funding. Council agreed a combined Medium Term Financial Strategy 2017/18 – 2021/22 and Efficiency Plan and accepted the funding offer at its meeting on 21 September 2016.

1.4 The MTFS is reviewed and updated on an annual basis. The current document therefore updates the strategy agreed in 2016 in light of the Council's developing strategic priorities, the external environment, and the latest financial projections, in order to provide a new MTFS for the five year period 2018/19 to 2022/23.

Strategic Context

1.5 The Council has set two overriding 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 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

1.7 The strategic revenue projections underlying the current Medium Term Financial Strategy suggested that a budget gap would arise in 2020/21, as follows.

Table 1: Current MTFS Revenue Projections 2017/18 – 2021/22

	17/18	18/19	19/20	20/21	21/22
	£m	£m	£m	£m	£m
Council Tax	14.8	15.0	15.5	15.9	16.4
Retained Business Rates	4.1	4.2	4.4	4.5	4.6
Tariff / top-up adjustment (negative RSG)			-1.6	-1.6	-1.6
Budget requirement	18.9	19.2	18.3	18.8	19.4
Fees and Charges	16.4	16.6	16.7	16.9	17.1
Total Funding Available	35.3	35.8	35.0	35.7	36.5
Predicted Expenditure	37.1	35.7	36.4	36.9	36.4
Budget Gap	1.8	-0.1	1.4	1.2	-0.1
Required – Cumulative	1.8	1.7	3.1	4.3	4.2
Budget Savings	1.8	2.7	3.2	3.4	3.4
Still to be identified	0.0	-1.0	-0.1	0.9	0.8

1.8 In light of the many uncertainties faced by the Council, 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. Projections were prepared for each of the scenarios modelled, giving consideration to:

- Assessment of external opportunities and threats
- Evaluation of existing budget savings in the five year plan
- Latest emerging information about economic developments and government policy.

1.9 In accordance with legislative requirements the Council must set a balanced budget. Under the 'business as usual' scenario there will be a budget gap from 2020/21 onwards, and in the 'adverse' scenario from 2018/19 onwards. The MTFS sets out a proposed approach that seeks to address this.

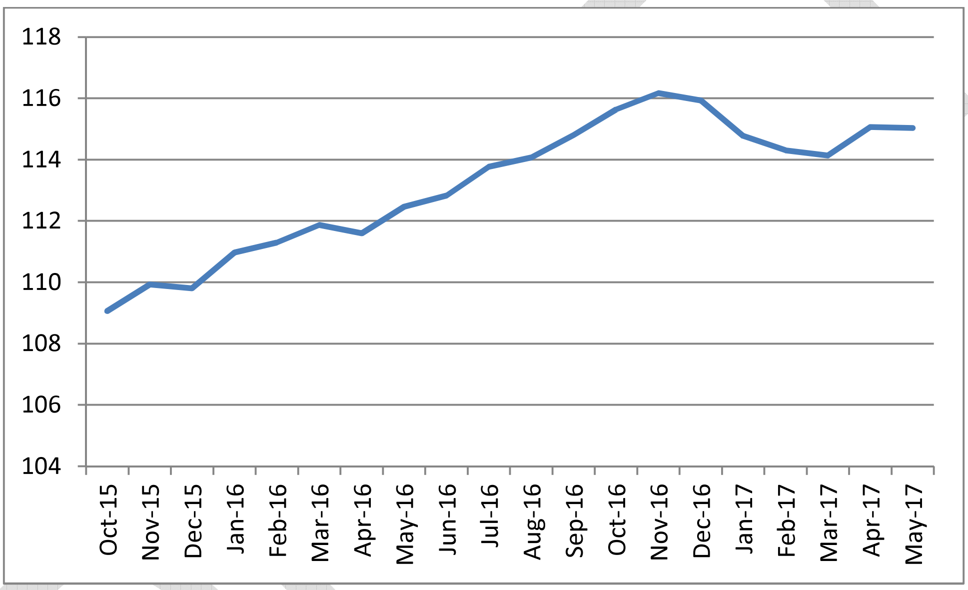
2. NATIONAL AND LOCAL CONTEXT

Economic Outlook 2018 – 2023

2.1 Following the EU referendum in June 2016, the national economy continued to grow strongly, contrary to many expectations. However, growth is now slowing. In the first quarter of 2017, growth in GDP was just 0.2%. Because the UK's population is increasing, the rate of growth in GDP per head was zero. This was the lowest rate of growth of any EU country.

2.2 Both continued growth in the immediate aftermath of the EU referendum, and now the more recent slowdown, have been driven by consumer spending. See below.

Figure 1: Retail Sales Volumes (3 month moving average, 2005 = 100)



2.3 The Bank of England's May 2017 Inflation Report attributes the slowdown in consumer spending to the impact of sterling depreciation. However, the Bank of England also states that weaker consumption may be balanced by rising net trade and investment, since the global economy is continuing to grow.

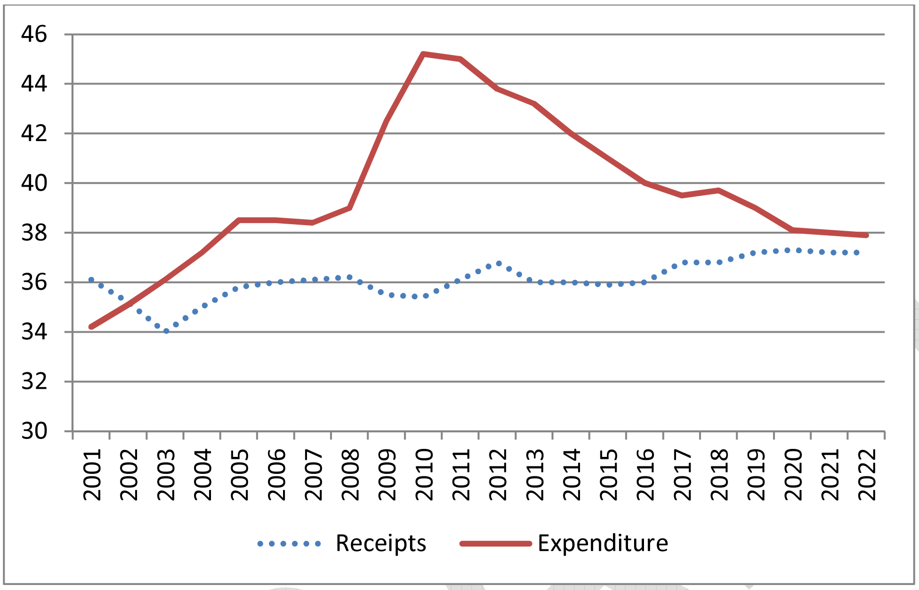
2.4 Sterling depreciation has meant that inflation has risen above the Bank of England target of 2%. The latest Consumer Price Inflation figures show an annual rate of 2.9%. However, wage growth has remained weak, leading to falling real incomes.

2.5 The outlook for future economic growth remains very uncertain. It is likely to be highly sensitive to the eventual trading arrangements reached between the UK and its economic partners following Brexit.

Public Finances

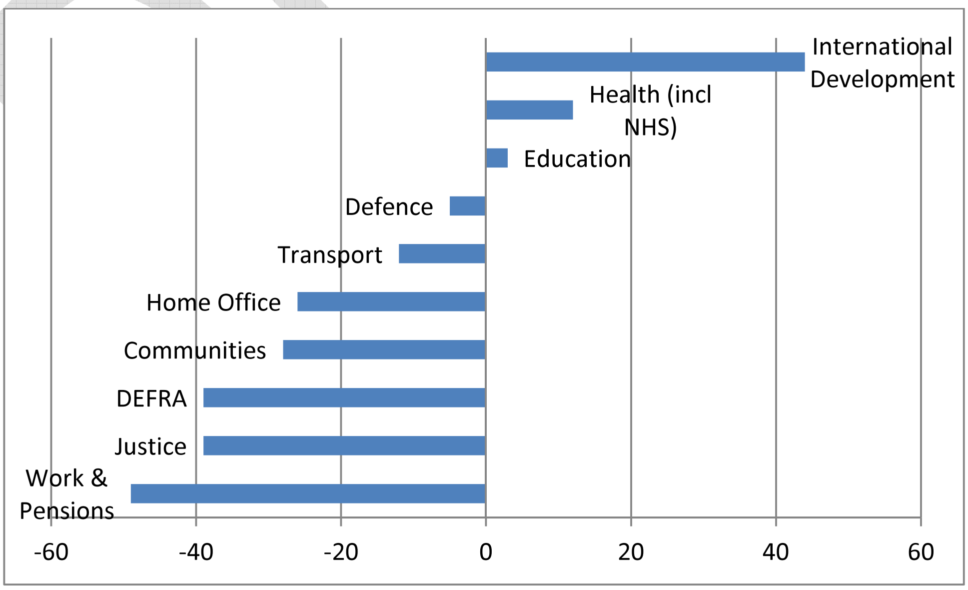
2.6 Following the financial crisis of 2008 and the demands that it placed on the public finances, national governments followed an explicit policy of deficit reduction. This has brought public expenditure down to a similar level as a proportion of national income to that in 2007/08, immediately before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

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



However, the impact of expenditure reduction has varied in different parts of the public sector – see figure 3 below.

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



2.7 Central government funding for local authorities, in particular, 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. A key change 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.

2.8 Prior to the 2017 General Election, the Government was preparing to move to 100% business rates retention with effect from 2020. As with 50% business rates retention, this would have been linked to a mechanism for rates equalisation. The additional income would have been accompanied by devolution of further responsibilities to local government. However, the relevant legislation was not included in the Queen's Speech. The local government sector therefore assumes that 100% business rates retention has been postponed if not dropped altogether.

2.9 In the absence of any firm alternative to 100% business rates retention, the likely funding arrangements for local government after 2020 are very unclear. Pressures to spend more money elsewhere in the public sector, together with the potential for lower tax receipts if the economy slows down, mean that local government faces a very real risk of further reductions in funding.

2.10 Maidstone no longer benefits directly from central government support in the form of Revenue Support Grant. However, the existing four year funding settlement contains a mechanism for government to levy a 'tariff / top-up adjustment' – effectively reverse Revenue Support Grant – on local councils. This mechanism could be used to extract funding from the sector for other priorities. Accordingly, Maidstone Borough Council needs to plan for the risk that the tariff / top-up adjustment of £1.6 million payable in 2019/10 will increase in subsequent years.

2.11 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. This depends in turn on the performance of the national and local economy. Given the uncertainty about future economic growth, forecasts have been reflected in the Strategic Revenue Projection using a range of different scenarios.

2.12 Further details of how the Council funds its services are set out in section 4.

3. STRATEGIC PLAN AND ACTION AREAS

3.1 The Medium Term Financial Strategy is intended to deliver the Council's Strategic Plan. As part of the Strategic Plan, the Council has agreed two corporate priorities for 2015-2020 underpinned by 8 action areas:

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;
- Regenerating the Town Centre;
- Securing improvements to the transport infrastructure of our Borough;
- Promoting a range of employment opportunities and skills required across our Borough; and
- A home for everyone.

The 2017/18 refresh of the Strategic Plan highlighted the following action areas for specific focus:

- A clean and safe environment;
- Regenerating the Town Centre;
- A home for everyone – tackling homelessness and improving supply.

3.2 The financial resources available to deliver these actions are set out in the following sections of the MTFS. Day-to-day expenditure is met from the revenue budget, which is funded primarily from Council Tax, our share of Business Rates income and Fees and Charges. It will be seen that there are severe constraints on the funding available for the revenue budget. In addition, there are budget pressures which must be managed in order to ensure that there are sufficient resources available for the Council's priorities. This inevitably means that spending against the revenue budget must be prioritised.

3.3 Investment for the longer term is delivered through the capital programme, which is funded from the New Homes Bonus, borrowing and third party contributions such as Section 106 payments on new developments. Capital investment is essential to the realisation of the Strategic Plan. 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.

4. FINANCIAL RESOURCES

Council Tax

4.1 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.

4.2 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

	2012	2013	2014	2015	2016
Number of dwellings	66,325	66,924	67,178	67,721	68,519
% increase compared with previous year	1.19%	0.90%	0.38%	0.81%	1.18%

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

4.3 The level of council tax increase for 2018/19 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 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 limit set by the government for 2017/18 remained the greater of 2% or £5.00. For 2017/18, the Council approved an increase of £4.95 (2.1%).

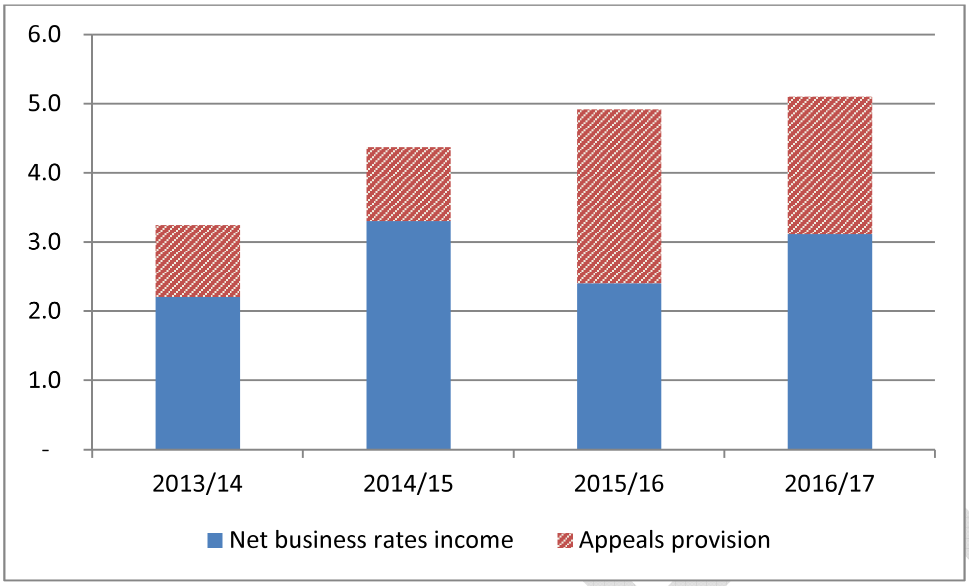
4.4 In the Medium Term Financial Strategy 2017/18 – 2021/22, it was assumed that the Council Tax base would increase by 1% per annum for the MTFS period, and Band D Council Tax will continue to increase by £4.95 per annum, reverting to 2% in 2020/21 when this becomes a greater figure than £4.95.

Business Rates

4.5 The current business rates regime, where 50% of business rates is retained by local authorities, but is then subject to tariffs and top-ups in order to equalise the amounts actually received by each authority, leads to a high degree of volatility. This is because the tariff is fixed, whilst business rates income is variable. This variability is exacerbated by the number of appeals outstanding at any one time. As a result, it has proved very difficult to project business rates income. See graph below.

Figure 4: Net Business Rates Income receivable by Maidstone BC

£ million



4.6 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 on business rates growth (district councils) are sheltered by the pool members who receive a top-up (major preceptors).

4.7 Originally the Council held all income from business rates growth in reserve and committed it in the year following its receipt. In setting the 2016/17 budget the Council approved the use of the non-pool 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. An earmarked reserve holds the growth protected by membership of the pool. The reserve is used for specific projects that form part of the Council's economic development strategy, such as the Maidstone East development.

Fees and Charges

4.8 Fees and charges income is an increasingly important source of funding for the Council. We have 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.

4.9 In developing the strategic revenue projection for 2017/18 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.

4.10 Fees and charges includes amounts recharged to other Mid Kent Services authorities where Maidstone is the host authority.

Balances and Earmarked Reserves

4.11 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.

4.12 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.

4.13 In addition to uncommitted General Fund balances, the Council holds reserves that are earmarked for specific purposes. The most substantial of these is the earmarked New Homes Bonus funding for capital expenditure, which stood at £7.2 million as at the end of 2016/17. Full details of reserves held are set out below.

Table 3: General Fund balances as at 31 March 2017

	£000
General Fund	
Asset Replacement	167
Planning Management	200
Commercialisation – contingency	500
Invest to Save projects	547
2016/17 underspend earmarked for Action Areas	89
Unallocated balance	5,855
Sub-total	9,329
Earmarked Reserves	
New Homes Bonus funding for capital projects	7,214
Local Plan	336
Neighbourhood Plans	64
Accumulated Surplus on Trading Accounts	243
Business Rates Growth Fund	158
Sub-total	8,014
Total General Fund balances	**17,343**

The unallocated balance exceeds the £2 million minimum. It represents 17% of the revenue budget, which is 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.

5. CURRENT EXPENDITURE

5.1 In order to provide some context for budget prioritisation, this section sets out current budgeted expenditure by Committee and by Service, and describes planned savings and known budget pressures.

Table 4: 2017/18 Revenue Budgets by Committee and Service

Ctee	Service	2016/17 Actual	2017/18 Budget Expenditure	Income	Net
		£000	£000	£000	£000
CHE	Communities & Housing	3,758	4,764	-1,381	3,383
	Environment & Public Realm	5,473	7,098	-1,740	5,359
HCL	Heritage, Culture & Leisure	750	3,558	-3,052	506
S P S & T	Planning Services	1,842	3,371	-2,472	899
	Parking & Transportation	-1,883	2,221	-4,141	-1,919
P & R	Economic Development	489	747	-448	299
	Property & Investment	491	1,973	-1,893	80
	Corporate & Shared Services	8,935	12,465	-2,175	10,291
	Total	**19,857**	**36,198**	**-17,301**	**18,897**

Communities and Housing

5.2 Developments in the housing market continue to create very significant budget pressures for the Council. The pressures are illustrated by the number of homeless applications, which amounted to nearly 600 in 2016/17 and to 79 alone in the first month of 2017/18. As a result, the cost of providing temporary accommodation led to an overspend for this area in 2016/17.

5.3 The Council has responded positively to these pressures through direct investment in property to provide temporary accommodation. Whilst this will reduce the cost of providing temporary accommodation over time, in the short term growth of £235,000 has been included in the budget for 2017/18. Early indications are that the continuing high number of homeless applications, and the length of time taken to bring our own property on stream, mean that it will be challenging to remain within budget even having taken into account the growth of the budget.

5.4 The Council is also anticipating the implementation of new homelessness legislation, and is investing in revenue resources for homelessness prevention. Further growth of £94,000 was built into the budget for 2017/18 to allow for additional recruitment to the preventions team, giving total growth of £329,000.

Environment & Public Realm

5.5 This service includes the core services responsible for delivering the 'clean and green' agenda – street cleaning, grounds maintenance and household waste collection. The service is planning savings of £114,000 in 2017/18, principally arising from additional income from commercial waste and garden waste collections. In addition to the challenge of delivering these savings, there will be £180,000 additional costs for waste collection in 2017/18 arising from the effect of contract indexation. The service has identified a number of measures which are intended to mitigate this cost and so achieve a balanced outturn.

Heritage, Culture & Leisure

5.6 This service includes the museum, leisure services and bereavement services. The area is planning savings of £130,000 in 2017/18, including additional Crematorium income of £55,000, £25,000 of operating savings at the Museum and £50,000 from a new operating model for Parks and Open Spaces. Recent performance of the Crematorium indicates that it should achieve its savings target. Careful monitoring will be required to ensure that the other savings are delivered.

5.7 There was an overspend in 2016/17 on the Mote Park Café, arising from it failing to achieve its income targets. The income target for the Mote Park Café has been removed in 2017/18, for one year only, such that it only has to break even to achieve budget. Early indications are that this objective will be achieved. The operation of the Café will be recommissioned during 2017/18 with the intention of generating a net surplus in future years.

5.8 Growth of £50,000 was allowed for the Museum in 2017/18, in anticipation of it failing to secure external funding for outreach activities. In the event, the Museum has secured an Arts Council grant of £70,000 for 2017/18. The Museum will therefore be expected to deliver a surplus in 2017/18.

Planning Services

5.9 This area has a savings target of £84,000 in 2017/18, comprising additional income for Building Control and Planning Support and a modest reduction in staffing levels. These savings are considered to be achievable. However, there will be pressures on the budget in 2017/18 arising from the potential cost of planning appeals. Additionally, the service area was expecting additional income of £120,000 from increasing Planning Fees by 20%. The legislation to implement this has been delayed by the General Election, so any additional income will be reduced and the service area will need to plan accordingly.

5.10 Growth of £200,000 has been built into the budget for 2017/18, to allow for work to commence on the Local Plan refresh that will be required for 2020.

Parking & Transportation

5.11 This service generates a strong positive contribution, primarily from the Council's Pay and Display car parks. £300,000 of savings are built into the 2017/18 budget arising from expected strong parking income performance and increased charges that took effect in April 2017.

Economic Development

5.12 Savings of £126,000 are projected for 2017/18, arising from the capitalisation of some staffing costs and use of the Business Rates Pool for certain revenue costs which meet the criteria for generating business growth. Whilst these are not cash savings, it is legitimate to maximise alternative sources of funding such as capital resources and the Business Rates Pool at a time when revenue resources are under pressure.

Property and Investment

5.13 Savings are projected in this area from commercial investments (£200,000) and office accommodation (£165,000). The saving from commercial investments is expected to be deliverable following a new acquisition at Heronden Road. Office accommodation savings were based principally on the opening of the Link as a shared facility with the DWP and should also be achievable.

Corporate and Shared Services

5.14 Substantial savings are projected in this area in 2017/18, of which the major items are Revenues and Benefits restructuring (£108,000), Finance Service savings arising from the deletion of the Head of Finance and Resources post (£100,000) and income from the new Debt Recovery Service (£88,000). All savings in this area are considered to be deliverable.

5.15 A Contingency Fund of £200,000 has been included under Corporate and Shared Services. It will be allocated, if necessary, to other Council services. Use of the Contingency Fund is a last resort and Service Areas will be expected in the first instance to offset any potential overspend with savings elsewhere within the Service.

6. FUTURE SCENARIOS

6.1 Owing to the high degree of uncertainty facing the Council, financial projections have been prepared for three different scenarios, as follows.

1. Favourable – Local authority growth

Central government accepts the logic of devolution and gives greater autonomy to local authorities. Most authorities no longer receive revenue support grant, but in return are able to increase Council Tax and to set their own business rates. This creates winners and losers, with some of the losers being unable to set balanced budgets and being forced to accept central government control. However, the winners are able to attract residents and businesses to their areas and to generate a higher rate of economic growth locally through enhanced capital investment.

2. Neutral - Business as usual

The government sticks to the current business rates retention model. A fair funding review to deal with pressing issues in the current system leaves the overall funding position broadly unchanged. In order to maintain services at current levels, the government accepts a higher level of overall public sector borrowing. An orderly Brexit means that the markets make only a marginal upward adjustment in their assessment of UK credit risk, so the cost of servicing public sector borrowing remains manageable. Local authorities are able to continue providing services at broadly the current level.

3. Adverse - Economic downturn

The continued fall in the pound deters consumers from spending and the economy slows down sharply. Businesses close, reducing rates income. Increasing unemployment leads to greater homelessness and more pressures on local authority housing services. Under pressure to maintain spending on the NHS, pensions and other benefits, the government squeezes local government's share of total spending by cutting what is left of revenue support grant and reducing local government's share of business rates. This leaves many more authorities paying central government 'negative revenue support grant'. The government continues to restrict the amount local authorities can raise by way of Council Tax in order to limit overall public spending, but wage inflation will grow, forcing authorities to make severe cuts.

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

Council Tax

6.2 It is assumed in all scenarios that Band D Council Tax will continue to increase by £4.95 per annum, reverting to 2% in 2020/21 when this becomes a greater figure than £4.95. This is in line with the current provisions for a referendum to take place if higher increases are proposed.

6.3 The ‘favourable’ scenario outlined above would allow the Council to increase Council Tax by more than 2%. It has been assumed for the purpose of the projections that if the Council were to do this the additional revenue would be used to fund additional services, such that there would be no ‘bottom line’ impact on the budget gap.

6.4 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 1.18% in 2016. The rate of increase in 2017 is likely to be higher still, but remains lower than that implied by Local Plan new homes targets. Assumptions are as follows:

Favourable – 2%
Neutral – 1.5%
Adverse – 1%

Tariff / top-up adjustment

6.5 The current four year funding settlement provides no Revenue Support Grant from 2017/18 onwards. Instead, a ‘negative Revenue Support Grant’ payment to government of £1.6 million is due to be paid in 2019/20. Whatever system is adopted for funding local authorities from 2020/21, it is likely that the government will look to recoup at least this much from Maidstone in subsequent years.

6.6 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 facing corresponding burdens, whether in the form of additional responsibilities or an increased tariff / top-up adjustment. With an adverse outcome this figure is treated as increasing to £2 million.

Business Rates

6.7 As described above, the net business rates income received by the Council is highly volatile, being sensitive to the number of appeals as well as to the overall economy.

6.8 A further factor to be considered is the likely 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.

6.9 Assumptions are as follows:

Favourable – annual increase in business rates 3%; Council retains all existing business rates growth, ie no adverse impact from business rates growth reset

Neutral – annual increase in retained business rates 2%; business rates growth reset to zero in 2020/21, £500,000 growth per annum from 2021/22 onwards.

Adverse –base level of retained business rates falls to the 'safety net' threshold; business rates growth reset to zero in 2020/21 and no further growth subsequently.

Fees and Charges

6.10 Current 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 inflation assumptions for fees and charges are for somewhat lower increases than the corresponding expenditure assumptions.

6.11 The aggregate change in fees and charges income includes both inflation assumptions and volume assumptions, based on the buoyancy of income streams. For example, in a favourable economic environment we would expect volumes to grow. Details are as follows:

Favourable – 0% price increase + 2% volume increase = 2%
Neutral – 0% price increase + 1% volume increase= 1%
Adverse – 1% price increase less 1% volume decrease = 0%

Inflation

6.12 The past year has seen a steady increase in inflation. The annual rate of increase in Consumer Price Index inflation (CPI) for the year to May 2017 was 2.9%. Although wage inflation in the public sector has been significantly below this level, there is increasing political pressure to relax the limits on public sector pay increases.

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

Table 5: Inflation Assumptions

	Favourable	Neutral	Adverse	Comments
Employee Costs	1.00%	1.00%	2.00%	The adverse assumption is that current government pay guidelines are relaxed
	0.50%	0.50%	0.50%	The annual cost of performance related incremental increases for staff
Electricity	3.00%	5.00%	9.00%	Based on guidance from

	Favourable	Neutral	Adverse	Comments
				supplier
Gas	3.00%	5.00%	11.00%	Based on guidance from supplier
Water	-3.50%	-1.75%	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	1.00%	2.00%	3.00%	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 2.9%

Spending Pressures

6.14 Allowance has been made for known spending pressures within the projections, with optimistic, neutral and pessimistic views taken on likely temporary accommodation pressures in the three different scenarios.

6.15 As there will be a delay in generating returns from capital investment following the initial borrowing and commitment of cash, the line 'revenue costs of capital programme' shows additional pressures in the first three years of the MTFS period, which are gradually reversed in years 4 and 5. In the adverse scenario, returns from the capital investment are 50% lower than in the neutral and favourable scenarios.

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

Table 6: Projected Budget Gap 2018/19 – 2022/23

	18/19	19/20	20/21	21/22	22/23
	£m	£m	£m	£m	£m
Scenario 1 – Favourable					
Budget Gap[1]	-0.1	1.1	-0.2	0.8	-0.8
Required – Cumulative	-0.1	1.0	0.8	1.6	0.8
Savings identified to date[2]	-0.9	-1.4	-1.6	-1.6	-1.6
Still to be identified	**-1.0**	**-0.4**	**-0.8**	**-0.0**	**-0.8**
Scenario 2 – Neutral					
Budget Gap[1]	0.4	1.5	1.4	0.8	-0.3
Required – Cumulative	0.4	1.9	3.3	4.1	3.8
Savings identified to date[2]	-0.9	-1.4	-1.6	-1.6	-1.6
Still to be identified	**-0.5**	**0.5**	**1.7**	**2.5**	**2.2**

Scenario 3 – Adverse					
Budget Gap[1]	2.3	2.0	1.2	3.0	0.8
Required – Cumulative	2.3	4.3	5.5	8.5	9.3
Savings identified to date[2]	-0.9	-1.4	-1.6	-1.6	-1.6
Still to be identified	**1.4**	**2.9**	**3.9**	**6.9**	**7.7**

[1] A positive figure here indicates a budget gap; a negative figure (-) indicates a surplus
[2] Savings included in existing 2017/18 – 2021/22 MTFS / Efficiency Plan

7. SAVINGS AND EFFICIENCY PLAN

7.1 It is inherent in the Medium Term Financial Strategy that the Council seeks to balance income and expenditure, and therefore identifies measures to eliminate any budget gap. In addition to the legal requirement to set a balanced budget for 2017/18, it is to be expected that the Council will 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 in the previous section.

7.2 It was acknowledged in preparing the current MTFS, for the five years 2017/18 – 2021/22, 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 £3.4 million of savings in the current projections, as follows:

Table 7: Budget savings by category

	£000
Efficiency savings	1,008
Increased income	1,093
Transformation and business improvements	851
Service reductions	456
Total	**3,408**

The preferred approach to delivering savings is through efficiencies, increased income or transformation. Service reductions are a last resort.

7.3 The blended approach to delivering savings has proved successful so far. Most savings for 2017/18 are on track to be delivered. If an individual saving is not delivered, the wide spread of approaches and savings ideas means that overall risk is minimised. Note that this approach is not the same as 'salami slicing'. Each savings proposal has been carefully developed and evaluated. Savings are not based on an arbitrary percentage cut in a service budget.

7.4 In addressing the budget gaps identified under the scenarios outlined above, it is proposed to adopt a similar approach. Whilst the size of the budget gap is potentially greater, it is considered that this approach is scalable and is appropriate for the task that now requires to be undertaken. Budget proposals will be developed during the course of September – November 2017, prior to consideration by Service Committees and the wider stakeholder group in December 2017 – January 2018. Budget proposals will be sought addressing the worst case, ie a maximum budget gap of £7 million, in order that the Council is suitably prepared for this eventuality.

8. CAPITAL PROGRAMME

8.1 The capital programme plays a vital part in delivering the Council's strategic plan, since it is only through long term investment that our ambitions for the borough can be realised. The capital programme is a rolling five year programme. The existing capital programme was approved by Council at its budget meeting on 1st March 2017 and totals £60 million over five years. Details are set out below.

Table 8: Five Year Capital Programme 2017/18 – 2021/22

	Actual	Five year plan					
	16/17	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing and regeneration schemes	21	1,500	7,500	11,500	8,500	3,000	32,000
Housing investments	754	3,900	600	600	600	600	6,300
Other housing	840	1,376	1,150	1,150	1,150	1,150	5,976
Commercial property investments	3,653	1,500	0	0	0	0	1,500
Parks and open spaces	641	2,292	1,919	625	0	0	4,836
Town Centre regeneration	131	1,400	1,400	0	0	0	2,800
Maidstone East	2,783	288	212	0	0	0	500
Flood defences	28	50	50	300	550	50	1,000
Infrastructure delivery	500	0	3,000	0	0	0	3,000
Bridges Gyratory Scheme	941	0	0	0	0	0	0
Other	1,559	740	601	520	415	225	2,501
Total	**11,851**	**13,046**	**16,432**	**14,695**	**11,215**	**5,025**	**60,413**

8.2 Infrastructure development in the Local Plan will be primarily funded from S106 contributions and the Community Infrastructure Levy. However, an allocation of £3 million has been included in the capital programme to cover investment by the Council itself. This may be used in advance of receiving S 106 contributions.

8.3 The above figures do not include potential capital investment in the Kent Medical Campus, part of the North Kent Enterprise Zone (EZ). This capital investment, which is expected to be an important driver for economic development, would be funded on a stand-alone basis from business rates income generated by the EZ.

8.4 Since the capital programme was agreed by Council, a requirement has emerged for a capital investment to strengthen the dam at the western end of Mote Park Lake. Detailed costings still have to be prepared but the cost is likely to be in the region of £1 million.

8.5 Schemes may be included in the capital programme if they fall within one of the four following categories:

- Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;
- Self-funding schemes focused on strategic plan priority outcomes;
- Other schemes focused on strategic plan priority outcomes; and
- Other priority schemes which will attract significant external funding.

8.6 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:

a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.
b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be prepared.

8.7 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. The funding projections for the Capital Programme envisage that borrowing will not be required in 2017/18, but will be in subsequent years. The cost of any borrowing will be factored into the updated MTFS financial projections.

8.8 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. The reduction takes immediate effect, such that it affects six year payments already being received. An allowance is also made in calculating New Homes Bonus for the natural growth in housing from 'normal' levels of development. This means that New Homes Bonus will now only be paid on growth in excess of 0.4% per annum.

8.9 Many of the external grants that were available to the council for funding capital projects in the past no longer exist. However, recent projects have received support through grants and contributions, eg the Museum, Mote Park, and the High Street. Government funding is also available through the South East Local Enterprise Partnership (SELEP). Opportunities to bid for funding are pursued energetically wherever possible.

8.10 Funding is also available through developer contributions (S 106) and, in future, through the Community Infrastructure Levy (CIL). Members have been consulted in relation to the levy and a draft charging schedule was approved by Council at its meeting on 7 December 2016. The way will be clear for the Council to introduce a CIL when its Local Plan is adopted, subject to an examination of the Council's CIL proposals.

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

Table 9: Capital Programme Funding

Funding Source	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	TOTAL £000
Earmarked Reserves	11,216	3,059	2,935	2,800	2,800	22,810
Capital Grants	800	800	800	800	800	4,000
Internal Borrowing	1,030	3,570				4,600
Prudential Borrowing	0	9,003	10,960	7,615	1,425	29,003
Total Resources	**13,046**	**16,432**	**14,695**	**11,215**	**5,025**	**60,413**

8.12 A review of the schemes in the capital programme will take place during the course of Autumn 2017. Proposals will be considered for any 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. The outcome of this review will be reported to Policy and Resources Committee in January 2018 and an updated capital programme recommended to Council for approval.

9. RISK MANAGEMENT

9.1 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.

9.2 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.
- Insufficient Balances - minimum balance is insufficient to cover unexpected events OR minimum balances exceed the real need
- Inflation rate predications underlying MTFS are inaccurate
- Adverse impact from changes in local government funding
- Constraints on council tax increases (ie 2% referendum limit)
- Reduction or total loss of funding sources for capital programme
- Increased complexity of government regulation
- Business Rates & Council Tax collection
- Other Kent Business Rates Pool members require support from the Council.

9.3 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.

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

Table 10: Budget Risk Matrix

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

<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. Funding the capital programme
K. Increased complexity of government regulation
L. Collection targets for Council Tax and Business Rates missed
M. Business Rates pool fails to generate sufficient growth

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

10. CONSULTATION

10.1 Each year the Council carries out consultation as part of the development of the MTFS. This year the Council is carrying out its two-yearly Residents' Survey and the opportunity has been taken to incorporate questions about the Council's budget priorities, as follows:

- What funding approach do you think we should take for each of the Council's funding priorities (reduce spending/maintain current spending/increase spending)
- Which of the priorities is most important to you?
- Which of the following actions should the Council prioritise to balance the budget? (Increase council tax / Increase fees and charges for the services you use / Stop delivering non essential services / Provide services less frequently or to a lower standard)

The results of this consultation will be used to inform the preparation of detailed budget proposals.

10.2 As a second step, consultation will be carried out in December 2017 – January 2018 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 sought.