

# **MAIDSTONE BOROUGH COUNCIL**

## **MEDIUM TERM FINANCIAL STRATEGY 2024/25 – 2028/29**



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# 1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

- 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's Strategic Plan, agreed in December 2018, covers the period 2019 to 2045. The Strategic Plan incorporates four key objectives: embracing growth and enabling infrastructure; homes and communities; a thriving place; and safe, clean and green. Further details are set out in **Section 2**.
- 1.2 Delivering the Strategic Plan depends on the Council's financial capacity and capability. Accordingly, the MTFS considers the economic environment and the Council's own current financial position. The external environment (**Section 3**) is challenging because of high inflation and the state of the UK's public finances. In assessing the Council's current financial position (**Section 4**), attention is paid to its track record of budget management, current financial performance and the level of reserves that it holds.
- 1.3 It is imperative that the MTFS both ensures Maidstone Council's continuing financial resilience and is sufficiently flexible to accommodate a range of potential scenarios. The Council has prepared financial projections under different scenarios, continuing a practice that has been followed for several years. Details of the different scenarios are set out in **Section 5**.
- 1.4 Planning assumptions for the different scenarios are set out in **Section 6**. A key assumption is the level of Council Tax, as this is the council's principal source of income. Increases in Council Tax are subject to a referendum limit, which at the time of writing (August 2023) is expected to be 3% for 2024/25. This is significantly less than the current rate of inflation, which means that there will be a budget gap, all other factors being equal. The position for future years is even more challenging, given that the expected reset of local government funding is unlikely to be favourable for Maidstone.
- 1.5 Fees and charges in aggregate make an equally important contribution to the Council's resources. Given the rise in the Council's input costs, it is important that these rise in line with inflation. For the purpose of the 2024/25 budget this has been assumed to be 5%.
- 1.6 The MTFS sets out financial projections based on these assumptions in **Section 7**. These are based on scenario 4, which assumes that inflation will remain elevated and central government continues to give the council limited funding flexibility. The table below shows projections for scenario 4, before taking account of the budget changes that are due to be considered by members at meetings of the PACs, Overview and Scrutiny Committee and Cabinet in September 2023.

**Table 1: MTFS Revenue Projections 2024/25 – 2028/29**

	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Total Resources	53.7	54.7	56.4	58.5	60.2
Predicted Expenditure	55.3	59.2	61.0	61.9	62.7
Budget Gap	1.6	4.5	4.6	3.4	2.5
Existing Planned Savings	0.7	0.0	0.2	0.1	0.1
Savings Required	0.9	4.5	4.4	3.3	2.4

In accordance with legislative requirements the Council must set a balanced budget. Section 7 concludes by setting out a proposed approach which will specifically address the budget gap in 2024/25. The position in future years is much more challenging and will require a more radical approach.

- 1.7 The Council's strategic priorities are met not only through day-to-day revenue spending but also through capital investment. The Council's programme of building 1,000 Affordable Homes is the centre-piece of the Capital Strategy. Capital investment therefore serves to deliver the Council's strategic priorities, but must remain affordable and sustainable. As set out in **Section 8** below, funds have been set aside for capital investment, using prudential borrowing, and further funding may be available by taking advantage of opportunities to bid for external funding.
- 1.8 The MTFS concludes by describing the process of agreeing a budget for 2024/25, including consultation with all relevant stakeholders, in **Section 9**.

## 2. CORPORATE OBJECTIVES AND KEY PRIORITIES

2.1 The Council has a Strategic Plan which was originally adopted by Council in December 2018. The Strategic Plan has been refreshed in light of the Covid-19 pandemic. Each year the Strategic Plan is refreshed as appropriate. For 2023/24, the Strategic Plan was updated to reflect the Council's ambition in regard to Biodiversity and Climate Change, the emerging Town Centre Strategy, community resilience, and delivering 1,000 Affordable Homes.

2.2 Cabinet agreed at its meeting on 26 July 2023 that no further review of the Strategic Plan would be required for 2024/25. The four key objectives remain as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

'Embracing growth and enabling infrastructure' recognises that we want Maidstone Borough to work for the people who live, visit and work; now and in the future. We want a Borough where there is a variety of jobs, housing need is met and infrastructure is in place to meet the growing needs of our residents and economy. We also want to ensure we lead and shape our place as it grows, including leading master planning and investing to bring about high quality housing and jobs in the Borough.

'Homes and communities' expresses that we want to have a place that people love and where they can afford to live. This means ensuring that there is a good balance of different types of homes, including affordable housing. We will have safe and desirable homes that enable good health and wellbeing for our communities. We will address homelessness and rough sleeping to move people into settled accommodation. We will work with our partners to improve the quality of community services and facilities including for health care and community activities. Residents will be encouraged and supported to volunteer and play a full part in their communities.

'A thriving place' is a Borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. Maidstone is the Business Capital of Kent; we will continue to grow our local economy with high employment, good local jobs and thriving local businesses. We want our town and village centres to thrive and be fit for the future. We will lead investment in the County town and rural service centres through our regeneration projects and working with partners. We are proud of our heritage and will continue to grow our leisure and cultural offer

A 'safe, clean and green' place is one where we will keep Maidstone an attractive and clean place for all. Maidstone is a safe place to live and we want our residents to feel safe. We want to protect and where possible enhance our environment and make sure our parks, green spaces, streets and public areas are high quality by ensuring they are looked after, well managed and respected.

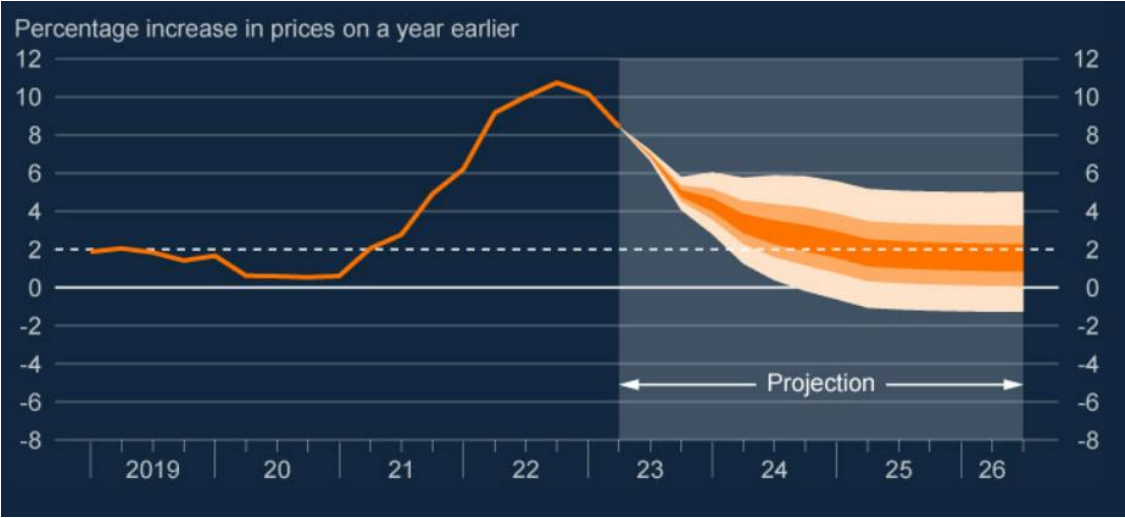
- 2.3 Since the adoption of the Strategic Plan in December 2018, the objective of 'Embracing growth and enabling infrastructure' has started to be realised, for example the completion of the Innovation Centre and development a new Garden Community.
- 2.4 Amongst initiatives to help make Maidstone a 'Thriving Place' have been MBC investment at Lockmeadow and on the Parkwood Industrial Estate, along with the emerging plans for developing a Town Centre Strategy. We will continue to leverage the Council's borrowing power, if appropriate in conjunction with partners, to realise our ambitions for the borough.
- 2.5 Our 'Homes and Communities' aspirations are being achieved by investment in temporary accommodation and the Trinity Centre and the Leader's commitment to build 1,000 new affordable homes.
- 2.6 The objective of a 'Safe, Clean and Green' place has been emphasised by the Council's commitment to a carbon reduction target and the capital investment to help enable this to be delivered and timely preparation for new waste management arrangements.
- 2.7 Within the framework of the existing Strategic Plan, the Council is therefore prioritising:
- development of the Local Plan and related strategies and policies, in particular the Town Centre Strategy
  - continued investment to make Maidstone a thriving place
  - investment in 1,000 new affordable homes
  - measures to enable the Council's carbon reduction target to be met.
- 2.8 The funding envelope within which these priorities must be delivered depends heavily on the Council's own revenue-generating capacity. The Council is largely self-sufficient financially, drawing most of its income from Council Tax and a range of other locally generated sources of income, including Parking, Planning Fees and the Council's property portfolio. However, it operates within the local authority funding framework set by central government, which is likely to impose tight constraints, and is affected by macro-economic conditions, in particular the rate of inflation. The two key variables in financial planning are therefore the restriction set by central government on the amount by which Council Tax can be increased and the rate of inflation. The financial implications are set out in section 6 below.

### 3. ECONOMIC ENVIRONMENT

#### Macro outlook

3.1 The UK economy has been battered by a series of shocks over the past three years. The Covid pandemic was followed by Russia’s invasion of Ukraine, which led to big increases in energy and food prices. The number of people available to work has not recovered from the Covid pandemic and productivity growth is low. This has led to high inflation, which is only just beginning to fall.

**Figure 1: CPI inflation projection based on market interest rate expectations**



*Source: Bank of England Monetary Policy Committee report, August 2023*

3.2 Whilst inflation is projected to fall to 2% by early 2025, Bank of England forecasts have proved consistently over-optimistic and there is a high risk that inflation levels will remain elevated.

#### Public Finances

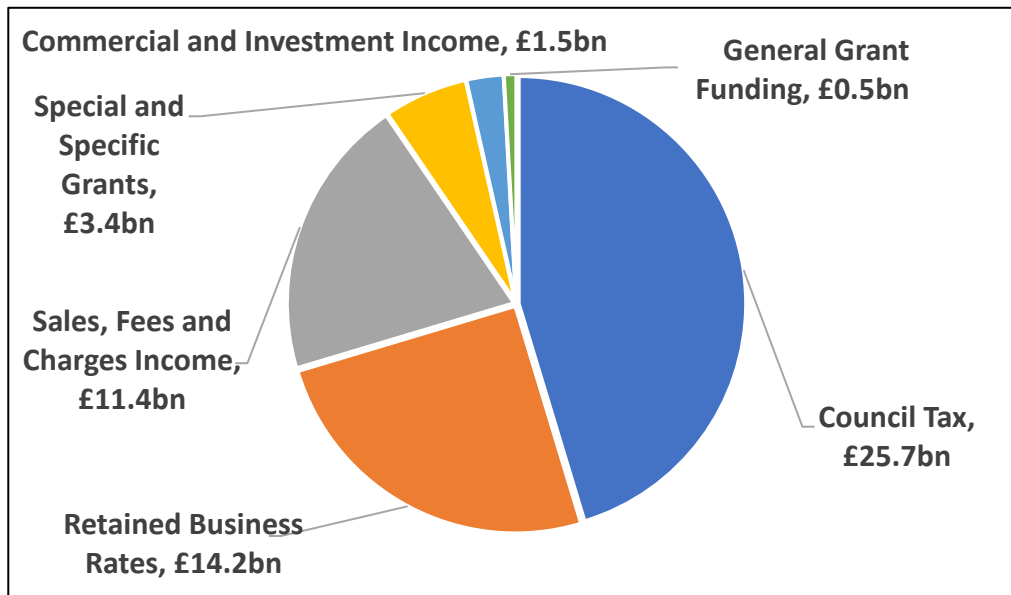
3.3 Slow growth and higher interest rates have negatively impacted the public finances. To address this, HM Treasury envisages a programme of fiscal consolidation over the next few years, with taxes set to rise to nearly 38% of GDP and increases in public service spending limited to 1% a year in real terms. This means that whoever is in government after the forthcoming general election will face very tough choices on tax and spending.

3.4 The overall public expenditure context is relevant for the council, because the local authority funding framework set by government is a crucial determinant of the Council’s financial position. This is primarily because central government restricts the amount by which Council Tax can be increased through the referendum limit and it determines the share of business rates that can be retained locally.

## Local Government Funding

3.5 The main sources of local government funding nationally are set out below.

**Figure 2: How Council Services are funded**



Source: IFS, 'Does Funding Follow Need?', October 2022

- 3.6 In recent years, the reduction in direct central government funding for local government has been mitigated by increases in locally generated sources of income, with Council Tax rising by more than the overall rate of inflation. Upper tier authorities in particular have been able to raise additional tax through a social care precept. This has led the government's preferred measure of council spending, 'Council spending power', to increase, even though it may not reflect the actual resources available. However, funding has failed to keep up with the increased demands on council services, particularly for social care and housing.
- 3.7 The other main element of local government funding, beside Council Tax, is Business Rates. The 2010-15 Coalition Government transferred a notional 50% of locally-collected Business Rates income back to local government, but the requirement to adjust the amount of business rates retained between authorities, based on respective service needs, means that authorities with an active commercial sector and low perceived levels of need, like Maidstone, retain a low proportion of business rates (just 10% in Maidstone's case). It was originally intended to increase the 50% share of business rates retained locally to 75%, but this is no longer government policy.



- 3.8 The gradual squeeze on council funding means that an increasing number of councils are unable to set balanced budgets. This is formally signalled by the issue of a section 114 report. The councils that are most vulnerable tend to be those facing social care cost pressures, ie upper tier or single tier authorities, so it is likely that any additional support for local government in 2024/25 will be focused on them.

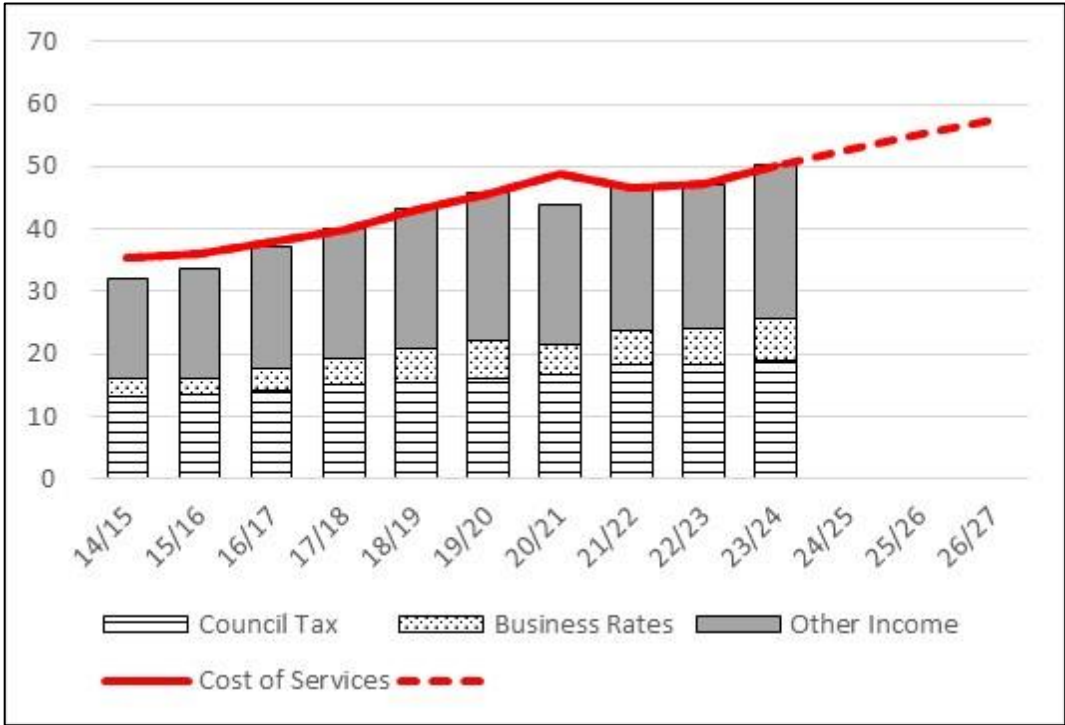
### **Conclusion**

- 3.9 The UK economy faces low growth prospects and continued high inflation. This limits the scope for any increase in public expenditure. To the extent that the funding framework for local government will be flexed to alleviate financial pressures caused by expenditure growth, this is likely to benefit upper tier or single tier authorities, not lower tier authorities like Maidstone.

## 4. CURRENT FINANCIAL POSITION

- 4.1 As a lower tier authority, Maidstone Borough Council is not subject to the extreme pressures currently faced by upper tier authorities arising in particular with respect to adults’ and children’s social care.
- 4.2 The Council is broadly self-sufficient financially. It ceased receiving direct government support in the form of Revenue Support Grant (RSG) in 2016/17 and relies mainly on Council Tax and a range of other locally generated sources of income, including parking, planning fees and the property portfolio, to fund ongoing revenue expenditure. During the pandemic, income fell and expenditure increased, but the consequent budget gap, being the difference between cost of services and aggregate income, was covered with direct government funding. This is illustrated in the graph below.

**Figure 3: Sources of Council funding**



- 4.3 The Council’s financial resilience can be assessed using CIPFA’s Resilience Index. The screen shot below shows Maidstone’s scores for 2021/22 (the most up to date data).

**Figure 4 – CIPFA Resilience Index for the Council in 2021/22**



Source: <https://www.cipfa.org/services/financial-resilience-index/resilience-index>

4.4 There are a number of measures captured by the Resilience Index that contribute to financial resilience, according to CIPFA, based on the Revenue Outturn data submitted to central government for 2021/22.

Reserves:

- sustainability of reserves
- level of reserves
- change in reserves
- level of unallocated reserves
- level of earmarked reserves
- change in unallocated reserves
- change in earmarked reserves.

Indebtedness:

- interest payable / net revenue expenditure
- gross external debt.

Financial profile:

- fees and charges as a % of service expenditure
- council tax requirement as % of net revenue expenditure
- growth above the government's business rates baseline.

4.5 CIPFA also considers that financial resilience depends on the quality of management, as evidenced by:

- quality of financial management, including use of performance information
- effective planning and implementation of capital investment
- ability to deliver budget savings if necessary
- risk management.

An assessment is set out below of how the Council performs on these measures.

## Reserves

- 4.6 Indicators of financial stress relating to reserves for Maidstone are generally towards the 'lower risk' end of the spectrum, as compared with our peers. As at 31 March 2023 the Council had unallocated General Fund reserves of £13 million. This corresponds to three months of service expenditure, thus providing an adequate but not excessive level of 'cushion' against unforeseen events.
- 4.7 It should be noted that 'earmarked reserves' are shown as being towards the higher end of the risk spectrum, meaning that the Council holds lower earmarked reserves than many of its peers. Given that such reserves are, by definition, 'earmarked', it is not necessarily the case that high levels of earmarked reserves should be regarded as reducing risk. Drawing on such reserves could mean diverting them from the projects for which they were intended. A high level of earmarked reserves could also indicate a failure in project delivery.
- 4.8 It is nevertheless the case that the council needs to build up its Housing Investment Fund, which comes within the category of earmarked reserves. This is because the affordable housing programme requires a revenue subsidy, which needs to be in place before properties are transferred to a Housing Revenue Account (see paragraph 8.7 below).
- 4.9 Reserves are shown below within the context of the council's overall financial position, as represented by its most recent balance sheet (previous year shown for comparative purposes).

**Table 2: Maidstone Borough Council balance sheet (unaudited)**

<b>31st March 2022 £000</b>		<b>31st March 2023 £000</b>
185,324	<b>Long Term Assets</b>	194,687
53,195	<b>Current Assets</b>	25,338
77,649	<b>Current Liabilities</b>	52,577
97,854	<b>Long Term Liabilities</b>	23,643
<b>63,016</b>	<b>Net Assets</b>	<b>143,805</b>
12,516	Unallocated General Fund Balance	12,983
21,375	Earmarked General Fund Balance	21,376
288	Capital Reserves	369
28,837	Unusable Reserves	109,077
<b>63,016</b>	<b>Total Reserves</b>	<b>143,805</b>

4.10 The main changes between the two balance sheet dates and the principal reasons are as follows:

- *Increase in long term assets:* A number of additional properties were purchased during 2022/23.
- *Decrease in current assets:* These have reduced as the short-term liquid investments held at the start of the year have been used to fund the capital programme and make Support for Energy payments to eligible households along with some other Covid-19 related payments.
- *Decrease in current liabilities:* The decrease in liabilities is mainly owing to the deployment of government grants, previously held as liquid investments pending use for the purposes described above.
- *Decrease in long term liabilities:* There has been a significant reduction in the pensions liability. This has come about due to a change in the discount rate used, which is linked to short-term interest rates, which rose between March 2022 and March 2023.
- *Increase in unusable reserves:* This arises because the pension asset / liability in the balance sheet is treated as unusable. As the liability has fallen (see above) so the level of reserves increases.

4.11 The unallocated general fund balance, part of usable reserves, represents the Council's core reserves. It is an essential part of the Council's strategic financial planning, as this amount represents the funds available to address unforeseen financial pressures.

4.12 For local authorities there is no statutory minimum level of unallocated reserves. It is for each Council to take a view on the required level having regard to matters relevant to its local circumstances. CIPFA guidance issued in 2014 states that to assess the adequacy of unallocated general reserves the Chief Financial Officer should take account of the strategic, operational and financial risks facing their authority. The assessment of risks should include external risks, such as natural disasters, as well as internal risks such as the achievement of savings.

4.13 Maidstone Council historically set £2 million as a minimum level for unallocated reserves. In the light of the heightened risk environment facing the Council, it was agreed from 2021/22 that this minimum should be increased to £4 million. In practice, the level of unallocated reserves held is higher, at £13 million, thus providing a reasonable, but not excessive, level of additional assurance.

### **Indebtedness**

4.14 The Council has a relatively low level of external debt. As at 31 March 2023 this amounted to £10 million. Although the Council has expanded its property portfolio in recent years, this has largely been funded from internal sources.

4.15 The CIPFA Resilience Index shows interest payable compared with net revenue expenditure as being towards the higher risk end of the spectrum.

However, this is somewhat misleading, because the figure used for interest payable comprises just £100,000 payable on external debt and £1.8 million representing a notional interest charge on pension liabilities.

### Financial profile

- 4.16 Three of the metrics used by CIPFA indicate the authority’s underlying financial strength. These reflect the profile of the local economy and are usually of very long historical standing.

*Fees and charges as a % of service expenditure* measures the extent to which an authority can cover service expenditure through fees and charges. It is beneficial, for example, if an authority can generate substantial parking income. Maidstone tends towards ‘higher risk’ on this measure, possibly indicating that it is not exploiting such sources of income as effectively as it could do.

*Council tax requirement as % of net revenue expenditure* measures the extent to which Council Tax income covers revenue expenditure. Maidstone is very low risk on this basis, as it can cover revenue expenditure fully through council tax income, without being dependent on external income or government funding.

*Growth above baseline* measures the rate of business rates growth as compared to the government’s baseline. An area with a strong local economy would perform well on this metric. Maidstone is in the middle of the risk spectrum.

### Financial management

- 4.17 The Council has a strong track record of managing finances within the agreed budgets. The revenue out-turn for 2022/23 is set out below, showing that the Council ended the year spending just £212,000 (1%) less than the agreed budget for the year.

**Table 3: 2022/23 Revenue Out-turn**

<b>Service</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Economic Development	620	720	-100
Planning	2,112	2,444	-332
Parking	-1,410	-1,865	455
Corporate Services	10,894	10,270	624
Housing & Health	2,726	3,711	-985
Environmental Services	6,874	6,364	510
Communities, Leisure & Arts	1,414	1,375	39
<b>Total</b>	<b>23,231</b>	<b>23,019</b>	<b>212</b>

- 4.18 Financial management at Maidstone Borough Council contains a number of elements. Officers and members are fully engaged in the annual budget

setting process, which means that there is a clear understanding of financial plans and the resulting detailed budgets

- 4.19 Detailed financial reports are prepared and used on a monthly basis by managers, and on a quarterly basis by elected members, to monitor performance against the budget. Reports to members are clear, reliable and timely, enabling a clear focus on any areas of variance from the plan.
- 4.20 Financial reports are complemented by performance indicators, which are reported both at the service level to the wider leadership team, and at a corporate level to members. Member reports on performance indicators are aligned with the financial reports, so that members see a comprehensive picture of how services are performing.
- 4.21 Financial management and reporting is constantly reviewed to ensure that it is fit for purpose and meets the organisation's requirements. Quarterly financial reports to members have been redesigned over the last two years to make them more user-friendly.
- 4.22 Where variances arise, prompt action is taken to address them. Action plans are put in place at an early stage if it appears that there is likely to be a budget overspend.
- 4.23 The authority consistently receives clean external and internal audit opinions.

### **Capital investment**

- 4.24 The Council has a capital programme amounting to around £200 million over the next five years. The main element within the programme is the housing programme. Site acquisitions to date provide the capacity to deliver around 500 units. These will comprise a mix of tenures but a significant element will contribute to the overall target of delivering 1,000 affordable homes over the next ten years.
- 4.25 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code, which requires that capital investment should be funded in a way that is prudent, affordable and sustainable. Accordingly, an investment appraisal is undertaken prior to any site acquisitions for the housing programme.
- 4.26 The capital programme is largely funded through external sources, so it depends on the availability of funding, whether through Public Works Loan Board borrowing or other sources of finance. The Council has locked in £80 million of future borrowing, to be drawn down between 2024 to 2026, in order to mitigate the funding risk.
- 4.27 Member oversight is ensured, first by inclusion of schemes in the capital programme that is approved as part of the annual budget setting process. Subsequently, prior to any capital commitment being entered into, a report setting out details of the capital scheme is considered by the relevant service committee.

- 4.28 The Council has a corporate project management framework that applies to projects included within the capital programme. This provides for designation of a project manager and sponsor and includes a mechanism for progress on major projects to be reported to a Strategic Capital Investment Board.
- 4.29 So far as the housing programme is concerned, effective delivery of the programme is assured through an experienced in-house client team, which sources appropriate external skills (architects, employers' agents, contractors) to implement individual schemes. Each scheme is monitored from a financial and operational viewpoint and financial monitoring of capital projects is incorporated within the quarterly reports to Service Committees.

### **Ability to deliver budget savings**

- 4.30 The Council has a good track record of delivering budget savings, whilst sustaining and investing in services. Savings initiatives are planned so far as possible across the five-year period of the MTFS, rather than the focus being simply on achieving whatever savings are necessary in order to balance the budget for the coming year.
- 4.31 A common criticism of local authority financial planning is that proposed savings are often over-optimistic and are not based on realistic evidence of what is achievable. The Council aims to mitigate this risk with a robust process for developing budget savings proposals:
- New and updated savings proposals are sought on a regular annual cycle, with Service Managers typically briefed on the savings remit in August/September
  - Savings proposals are then developed over a period of around two months
  - Savings proposals have to be formally documented and signed off by the Service Head who will be responsible for delivering them.
- 4.32 Once savings have been built into the budget, their achievement is monitored as part of the regular financial management process described above.

### **Risk management**

- 4.33 The Council's MTFS is subject to a high degree of risk and uncertainty. 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.
- 4.34 The major risk areas that have been identified as potentially threatening the Medium Term Financial Strategy are as follows, in ranking order.



- Inflation rate is higher than 2% government target
- Capital programme cannot be funded
- Constraints on council tax increases
- Failure to contain expenditure within agreed budgets
- Financial impact from major emergencies such as Covid-19
- Planned savings are not delivered
- Business Rates pool fails to generate sufficient growth
- Collection targets for Council Tax and Business Rates missed
- Adverse impact from changes in local government funding
- Financial impact from IT security failure
- Pension liability cannot be funded
- Other income fails to achieve budget
- Fees and Charges fail to deliver sufficient income
- Litigation costs exceed budgeted provisions
- Increased complexity of government regulation
- Shared services fail to meet budget
- Council holds insufficient balances

4.35 The Council has implemented JCAD risk management software, which allows individual service areas to log and monitor risks. By reviewing risks on a regular basis in this way, it is expected that any major new risks will be identified and appropriate mitigations developed.

### **Conclusion**

4.36 When assessed against the CIPFA criteria for financial resilience, the Council can be seen to have adequate reserves in the short term and to be positioned well to manage the financial challenges it will face. The following section considers whether this position is sustainable.

**5. SCENARIO PLANNING**

5.1 As Maidstone’s financial position is dependent on government policy and on broader economic factors such as inflation, neither of which can be predicted with any certainty, it is appropriate to model the impact of different scenarios on the Council. Following a similar approach to that adopted when developing the current 2023/24 – 2027/28 Medium Term Financial Strategy, the following four scenarios can be sketched out.

<p><b>Scenario 1: Inflation falls, limited funding flexibility</b></p> <p>The rate of price inflation falls in line with BoE forecasts, but government maintains existing constraints on local government finances in order to reduce debt and create capacity for tax cuts.</p>
<p><b>Scenario 2: Inflation falls, some funding flexibility</b></p> <p>Inflation falls in line with BoE forecasts, and government adopts more accommodative local government finance settlements to help councils address demand pressures.</p>
<p><b>Scenario 3: Inflation remains elevated, some funding flexibility</b></p> <p>Inflation only reaches the target level of 2% at the end of the MTFS planning period. Owing to the continued high level of inflation, government relaxes constraints on local government finances to allow council services to be protected.</p>
<p><b>Scenario 4: Inflation remains elevated, limited funding flexibility</b></p> <p>Inflation only reaches the target level of 2% at the end of the MTFS planning period, but government maintains the existing level of constraints on local government finances.</p>

Scenario 4 is the most challenging of those sketched out above, as it represents a combination of continued high inflation and tight constraints on the Council’s revenue raising capacity. For planning purposes, we consider it prudent at this stage to adopt Scenario 4. However, the other scenarios will be modelled and the implications considered when developing the detailed Medium Term Financial Strategy.

5.2 The next section sets out planning assumptions under each of the above scenarios.

## 6. PLANNING ASSUMPTIONS

6.1 In drawing up financial projections, assumptions need to be made about what future scenarios might mean. The key dimensions are:

- (a) the Council Tax base;
- (b) the level of Council Tax;
- (c) retained Business Rates, which in turn depends on overall business rates and government policy on distributing Business Rates income;
- (d) other local income, eg fees and charges;
- (e) the cost of service delivery, which is subject to the effect of inflation on input prices.

Each of these is considered in more detail below.

### *Council Tax base*

6.2 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.

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

**Table 4: Number of Dwellings in Maidstone**

	2018	2019	2020	2021	2022
Number of dwellings	70,843	71,917	73,125	75,034	76,351
% increase compared with previous year	1.74%	1.52%	1.68%	2.61%	1.76%

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

6.4 The Council tax base is also affected by collection rates and the number of households benefitting from the Council Tax Reduction Scheme. Typically these factors do not vary significantly between years but in the event of a major downturn in the economy, collection rates could be expected to fall and more households would be eligible for the Council Tax Reduction Scheme.

6.5 Future growth assumptions for each scenario are set out below.

<b>Council Tax base growth assumptions</b>					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	1.5%	1.5%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	1.5%	1.5%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	1.5%	1.0%	1.0%	1.0%	1.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	1.5%	1.0%	1.0%	1.0%	1.0%

### *Level of Council Tax*

6.6 The level of council tax increase for 2024/25 is a decision that will be made by Council based on a recommendation made by the Cabinet. In practice, the Council’s ability to increase the level of council tax is limited by the need to hold a referendum for increases over a government set limit. In 2023/24, the limit was 3%. The Council approved the maximum possible increase. The rationale for this approach was that:

- pressures on the Council’s budget mean that even a marginal difference in Council Tax income is of value;
- the referendum limit might revert to a lower level in later years;
- because the starting point for calculating the referendum limit in any given year is the previous year’s Council Tax, agreeing a lower increase reduces the Council’s room for manoeuvre in later years.

6.7 Given that CPI inflation was 8.7% for the year to May 2023, it is hard to see the referendum limit being reduced from the current level of 3%. A prudent assumption (Scenario 4) would therefore be that the referendum limit will be 3% in 2024/25, but after the General Election that is due to take place by January 2025, the government will seek to bear down on inflation by restricting the limit to 2%, being the target level of inflation<sup>1</sup>.

6.8 Future growth assumptions for each scenario are set out below.

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<sup>1</sup> The Leader of the Labour Party announced in March 2023 that a Labour government would freeze Council Tax in 2024/25, using the proceeds of a windfall tax on oil and gas companies. Presumably this means that central government would reimburse local authorities with an amount equivalent to that by which they would have increased tax locally.

<b>Council Tax increase assumptions</b>					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	3.0%	2.0%	2.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%

- 6.9 A key MTFS assumption is that Council Tax increases are maximised within the constraints of the referendum limit.

*Retained business rates*

- 6.10 Under the current business rates regime, local government in aggregate retains 50% of business rates income. However, most of the 50% share collected locally is lost to Maidstone, because it is redistributed to other authorities through a system of tariffs and top-ups.

**Table 5: Baseline Business Rates Income 2023/24**

	£000	%
Baseline Business Rates income	62,333	100
Government share	-31,166	-50
Kent County Council / Kent Fire & Rescue Authority	-6,233	-10
Government tariff	-21,551	-35
Baseline Business Rates income retained by MBC	3,382	-5

To the extent that business rates income exceeds the baseline, this growth element is retained locally, subject to a levy payable to central government by tariff authorities like Maidstone.

- 6.11 The Council has been able to minimise the levy payable on business rates growth through its membership of the Kent Business Rates Pool. This is because the levy payable by some pool members (district councils) is offset against the top-up received by the major preceptors (Kent County Council and Kent Fire and Rescue).
- 6.12 Business rates pool income is allocated, in accordance with the Pool Memorandum of Understanding between Kent authorities, as follows.

Maidstone Borough Council – used for specific projects that form part of the Economic Development strategy. £250,000 of this amount is top-sliced in the budget for ED salaries and spatial planning.	30%
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Growth Fund – In Maidstone this is split 50:50 between MBC and Kent County Council for the regeneration of the Town Centre and is deployed at Maidstone East and Sessions House / Invicta House respectively.	30%
Kent County Council	30%
Contingency - To compensate Kent local authorities who do not benefit directly from pool membership (eg because their business rates growth is lower than the baseline)	10%

6.13 There are a number of factors affecting the future pattern of business rates income:

- Government uses the share of business rates that local authorities are allowed to retain as a mechanism for directing resources towards the areas of perceived need (hence Maidstone, as a relatively prosperous area, only retaining 5% of baseline business rates). This resource allocation has remained broadly unchanged since 2014, when the current local government funding system was introduced, but a 'fair funding review', which will update the resource allocation, has been mooted for several years. In practice it is now unlikely to be implemented before 2026/27.
- The government share of business rates and the tariff (see Table 4 above) are fixed £ amounts, based on a predetermined business rates baseline. This has benefited the Council over the past ten years, as the rate of business rates growth has been greater locally than general price inflation, and the Council has benefited from this excess growth. However, the reverse could be the case if there is a downturn in total business rates income.
- As part of any change to the funding system, the business rates baseline is expected to be adjusted. This will give a higher baseline for the Council, with the result that the accumulated business rates growth of the past ten years, which (subject to the levy) is currently retained locally, would be lost.

6.14 These factors are generally likely to have an adverse impact on business rates income. However, the government has indicated that changes such as implementation of the fair funding review and a revision of the baseline would be implemented over a period of time, dampening any immediate adverse impact.

6.15 Future growth assumptions for each scenario are set out below.

<b>Business rates growth assumptions</b>					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	-2.0%	-2.0%	-2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	0.0%	0.0%	0.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	3.0%	0.0%	0.0%	0.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	2.0%	-2.0%	-2.0%	-2.0%

### *Other income*

- 6.16 Other income, in aggregate, is now a major contributor to the Council’s total revenue budget. The main components of other income are set out below:

**Table 6: Projected Other Income 2023/24**

	£ million
Fees and charges	10.5
Property rental income	7.1
Shared services trading income	3.7
Other income	2.8
<b>TOTAL</b>	<b>24.1</b>

The Council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. Given the current inflationary environment, it is important to target an appropriate overall increase in the amount of fees and charges to mitigate the expected increase in the Council’s input costs. The alternative would be for the Council to have to make further savings, potentially reducing the level of services that it provides to residents.

- 6.17 Note that some fees and charges are set by central government and are not necessarily increased annually. Rents may only change at the point of periodic rent reviews.
- 6.18 Future growth assumptions for each scenario are set out below. These correspond to the inflation level projected for the respective scenarios, on the basis that it is reasonable to expect income to increase in line with expenditure. A key MTFS assumption is that overall income from fees and charges increases in line with expected increases in the Council’s input costs.

<b>Other income growth assumptions</b>					
	24/25	25/26	26/27	27/28	28/29
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%

### *Cost of services*

- 6.19 The cost of services is subject to inflation. Service cost increases tend to lag behind published inflation indices, but they are likely to follow the same pattern. Salaries account for around 50% of total input costs, and market pressures are likely to mean that inflation will impact salaries in the medium term. Many other costs, in particular contract costs, are directly linked to inflation indices.
- 6.20 As described above, there is considerable doubt about whether inflation will fall as quickly as official forecasts suggest. Accordingly, the preferred scenario 4 adopts a more prudent approach than simply following the Bank of England forecast.

<b>Cost of services growth assumptions</b>					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Inflation falls, limited funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Inflation falls, some funding flexibility	3.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Inflation remains elevated, some funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%
Scenario 4 – Inflation remains elevated, limited funding flexibility	5.0%	5.0%	4.0%	3.0%	2.0%

For the purposes of detailed budget planning, a more granular approach is taken to forecasting budget growth, and specific percentages are applied to the different categories within cost of services.



## 7. REVENUE PROJECTIONS

- 7.1 Strategic revenue projections for scenario 4 are summarised in table 7 below. In light of the many uncertainties around future funding, it is important to note that projections like these can only represent a 'best estimate' of what will happen. These projections will be updated as more information becomes available, prior to a final version of the projections being included in the updated Medium Term Financial Strategy.

**Table 7: MTFS Revenue Projections 2024/25-2028/29**

	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m
<b>Scenario 4</b>					
Total Resources	53.7	54.7	56.4	58.5	60.2
Predicted Expenditure	55.3	59.2	61.0	61.9	62.7
Budget Gap	1.6	4.5	4.6	3.4	2.5
Existing Planned Savings	0.7	0.0	0.2	0.1	0.1
Savings Required	0.9	4.5	4.4	3.3	2.4

- 7.2 Issues contributing to the budget gap in 2024/25 are inflation and £700,000 of additional growth in 2023/24 which was funded from one-off resources and is now built into base budgets. In 2025/26 and future years, the potential loss of funding from a local government funding reset and the cost of borrowing for the capital programme lead to much larger budget gap figures.
- 7.3 Note that all these assumptions assume that Council Tax income is increased by the maximum possible given the referendum limit, and fees and charges are increased in line with inflation. In all cases, the budget gap would be greater if these measures were not taken. See below for illustrative figures for 2024/25.

	£000
'Do nothing' budget gap	2,023
Increase Council Tax by 3%	-573
Increase Other Income by 5%	-525
Budget gap per Strategic Revenue Projection	925

- 7.4 In summary, it is assumed here that Council Tax is increased by the maximum possible, which in Scenario 4 is 3%; and that in order to deliver a 5% increase in other income, fees and charges are increased appropriately. To the extent that individual categories of fees and charges are not increased by this amount, compensating additional increases would need to be found elsewhere.

### Approach to balancing the budget

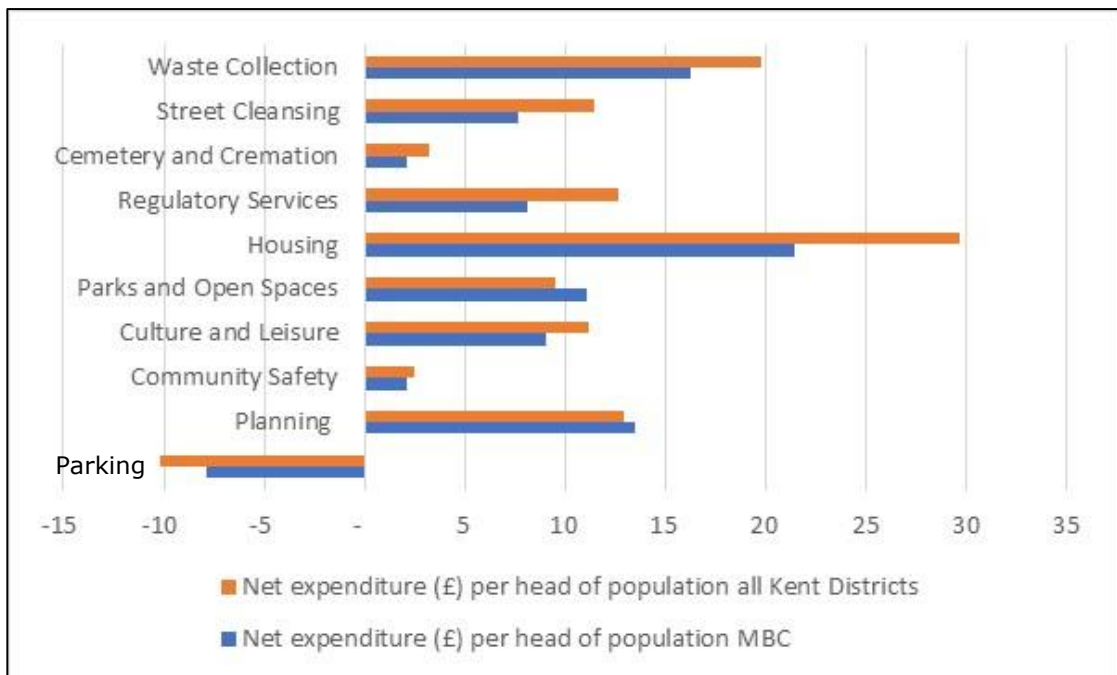
- 7.5 The immediate priority in setting a balanced budget for 2024/25 is to close the budget gap of £925,000 for next year. In line with the Council's usual

practice, savings proposals have been sought from service managers. Whilst individual proposals may not amount to significant sums, in aggregate they may contribute substantially to meeting the deficit.

7.6 It can be seen from the table above that savings on a much greater scale will be required in subsequent years. Assuming that the projections remain broadly unchanged, this will demand a much more thoroughgoing review of Council budgets, and potentially service reductions. In seeking areas where there may be potential for making savings, it is worth comparing the Council's most recent spending data with those of its peers – the other district Councils of Kent. This is not to imply that this Council is over-spending or under-spending in particular areas. Rather, it is intended to put our allocation of expenditure against the different priorities in context.

**Figure 5: Expenditure per head of population**

*Source: Local Authority 2021/22 Revenue Outturn returns*



7.7 From this it can be seen that MBC spends more than its peers on:

- Parks and Open Spaces
- Planning and Development
- Parking (ie income is lower than average).

6.7 Work will need to take place over the coming year so that savings proposals are ready for the start of the 2025/26 budget process.

## 8. CAPITAL STRATEGY

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, in particular the 1,000 Affordable Homes programme, can be realised. The capital programme has an impact on revenue, because of the cost of borrowing and the annual charge (Minimum Revenue Provision – MRP) that the Council is required to make to set aside sufficient money to fund the repayment of borrowing.

8.2 The profile of the current five year capital programme is as follows.

**Table 8: Capital Programme 2023/24 – 2027/28**

	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Affordable Housing	6,123	20,080	22,825	25,487	22,442	96,958
Social Housing Grant	-5,790	-3,120	-1,290	-8,250	-6,060	-24,510
Private Rented Sector	3,090	6,765	6,832	9,578	6,861	33,125
Temporary Accommodation	12,000	12,000	8,000	0	0	32,000
Disabled Facilities	800	800	800	800	800	4,000
Housing – Other	675	1,325	974	543	100	3,616
Environment	6,970	880	730	580	590	9,750
Communities, Leisure & Arts	4,329	3,700	3,350	1,000	1,000	13,379
Planning & Infrastructure	206	0	0	0	0	206
Corporate Services	10,514	7,280	5,423	5,249	4,903	33,369
<b>Total</b>	<b>38,917</b>	<b>49,710</b>	<b>47,644</b>	<b>34,986</b>	<b>30,636</b>	<b>201,893</b>

8.3 As the level of investment increases, the revenue cost of borrowing increases. Ultimately this is offset by income, to the extent that capital schemes generate income, eg in the form of housing rents. However, there is a period during which capital schemes need to be funded before they start to generate income.

8.4 There are a number of risks associated with the capital programme which potentially will impact the revenue account, to the extent that capital expenditure is abortive or leads to the write-down of capital investments:

- Construction price
- Contractor failure / liquidation
- Availability / cost of finance (currently the Council has arranged £80 million of funding, but the availability and cost of finance when this is exhausted is not known).

- 8.5 Finally, there is a specific requirement in relation to the Affordable Housing programme to provide the necessary subsidy for tenants. The requirement for a subsidy arises because affordable housing (ie housing to be let at a rent of no more than 80% of the Local Housing Allowance) does not achieve the normal rate of return that is required on Council investments in order to satisfy the prudential borrowing rules.
- 8.6 In order to avoid the Council facing an ongoing revenue burden from subsidising affordable housing tenants, and to avoid setting deficit budgets in the Housing Revenue Account (HRA) when it is established, it is assumed that a capital sum of around £50,000 per unit must be set aside for each unit of affordable housing. Note that there are strict rules about the HRA ringfence, above all the fact that the HRA cannot set a deficit budget. The capital sum must be set aside **before** housing units are transferred into the HRA. Otherwise, the HRA would run a deficit for every unit of housing transferred in, because of the excessive cost of funding housing stock that is transferred into it.
- 8.7 If the target of 1,000 affordable homes is to be achieved over a ten year period, the Council needs to set aside funds now to provide the necessary subsidy. An opportunity to provide this subsidy, without impacting core revenue spending, is available thanks to the government's continued deployment of one-off resources each year to local authorities in the form of New Homes Bonus and Services Grant. In 2022/23, an initial tranche of £3.2 million was earmarked from New Homes Bonus and transferred to a Housing Investment Fund. Although there is no assurance that such grants will continue to be available into the future, if the Council is to provide affordable homes as part of its capital programme, it needs to maximise the amount of one off resources, eg New Homes Bonus and Services Grant, that are transferred into the Housing Investment Fund. Note that there is a risk that New Homes Bonus will reduce in future, as housing growth falls, so any other one off resources will likely be required as well.
- 8.8 It is proposed that a key MTFs assumption is that one-off resources such as New Homes Bonus and Services Grant are earmarked for the Housing Investment Fund.

## **9. CONSULTATION AND NEXT STEPS**

- 9.1 Each year the Council carries out consultation as part of the development of the MTFS. A budget survey is being carried out and is due to close on 28<sup>th</sup> August 2023. The results will be reported to members to aid their consideration of the budget proposals.
- 9.2 Consultation with members will take place in September 2023 on detailed revenue budget proposals. Individual Policy Advisory Committees will consider the budget proposals relating to the services within their areas of responsibility, and Overview and Scrutiny Committee and Cabinet will consider the budget proposals for the Council as a whole.
- 9.3 Proposed fees and charges for 2024/25 will be considered by the Policy Advisory Committees and Cabinet later in the Autumn; capital budget proposals will be considered by the Corporate Services PAC and Cabinet in January 2024. The final budget will be presented to Council on the 21st February 2024.