

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**FINANCE and PROPERTY ADVISORY BOARD**

**09 July 2008**

**Report of the Director of Finance**

**Part 1- Public**

**Matters for Recommendation to Cabinet - Non-Key Decision**

**1 FINANCIAL ARRANGEMENTS WITH PARISH COUNCILS – POSSIBLE REVIEW**

**This report gives details about the current Scheme of Financial Arrangements with Parish Councils. It considers a possible review of the capital grants scheme, and also considers whether there is an opportunity to restrict further increases in the revenue grants to the same percentage as central government has applied to the Borough Council through the RSG mechanism.**

**1.1 Introduction**

1.1.1 The Council has a Scheme of Financial Arrangements with the Parish Councils to provide revenue and capital funding for local services under the provisions of the Local Government Act 1972.

1.1.2 This Act allows payments by one council to another where both councils have powers to carry out a specific function. The borough council uses these powers to assist parishes with the cost of services they provide which are provided by the borough council in unparished areas.

1.1.3 As a result of the severe financial pressures caused largely by the recent poor 3 year government grant settlement, the Cabinet has requested that the Finance and Property Advisory Board look at a possible review of the scheme. In particular, Cabinet highlighted a possible review of the capital grants system, and the opportunity to restrict further increases in grant to the same percentage as Government treats the Borough Council (Decision No. D080061CAB).

**1.2 Financial Arrangements with Parish Councils**

1.2.1 The scheme of financial arrangements with Parish Councils is attached at **[Annex 1]** for Members' information. It describes the objectives and the operation of the scheme.

1.2.2 The current scheme has been in effect from April 1992. The latest amendment to the scheme resulted from a scrutiny review in 2004, which widened the scope to allow for projects that support the Council's key priorities on street scene and crime and disorder.

### **1.3 Parish Charter**

1.3.1 Members will be aware that, in April this year, Cabinet adopted a Parish Charter – a copy of which is attached at **[Annex 2]**. The Charter represents an informal agreement between the Borough Council and local town and parish councils on joint working.

1.3.2 Member will note from paragraph 7.4 of the Charter that:

*“The Borough Council remains committed, subject to any future budgetary constraints, to financial arrangements (including grant) to support Town/Parish activities on concurrent functions”*

1.3.3 Therefore, this review will need to ensure that the ethos of the Parish Charter is maintained.

### **1.4 Capital Grants Scheme**

1.4.1 The Medium Term Financial Strategy (MTFS) allows for approximately £100,000 a year to be made available within the Capital plan to fund capital grants to parish councils.

1.4.2 As part of the annual budget process, parishes may apply for capital grants to help fund their special works projects. The application form guidance notes are attached at **[Annex 3]** for Members' information.

1.4.3 Applications are received by the end of October and, following consultation with officers and local members, reported to this Board in January, along with recommendations on how to fairly allocate the budget amongst the applicants.

1.4.4 Parishes which make multiple applications rank their applications in order of preference. To date, all 1st preference applications have been approved; however this has largely been accommodated by virements from the 'Capital Grants to Organisations' budget.

1.4.5 The advantages of the scheme are that:

- It is simple to administer.
- It is a cost effective way of providing improvements to local services through local channels.
- The criteria are linked to the Council's key priorities

- The ongoing revenue costs are met by the Parish Councils
- The projects are linked to local needs

#### 1.4.6 The disadvantages of the scheme could be perceived as:

- There is an emphasis on treating all parishes equitably rather than evaluating the relative merits of the individual projects.
- There is no agreed method of ranking projects where budget provision is insufficient to support all qualifying applications.
- Project delivery is often delayed (see Capital grant monitoring report elsewhere on the agenda).
- The annual bid process could be treated as a “use it or lose it” form of income for parishes.
- The lead time and deadline for grant application can cause problems for Parishes.

## 1.5 Revenue Grants Scheme

1.5.1 It has been practice for most of the life of the scheme to inflate the provision annually in line with the retail price index. However for 2008/09 the Council adopted the consumer prices index as an alternative.

1.5.2 The Council allocates the provision to the individual Parishes in line with the Scheme [**Annex 1**].

1.5.3 Allocations are driven by formulae covering four key components:

- Basic allocation – Based upon number of electorate. (In order to assist parishes with a smaller population, a notional population of 1,250 is taken as the minimum).
- Cemeteries and churchyards – Based upon the area of the churchyards/cemeteries.
- Footway lighting – Based upon the number of lighting columns.
- Debt charges – Based upon loans taken out during 1984/85.

1.5.4 Any difference between the provision and the total allocation is added to the amount available to fund capital projects.

1.5.5 The advantages of the scheme are that:

- It is simple to administer.

- It is accepted and understood by Parishes and the Council and has been in existence for a number of years.

#### 1.5.6 The disadvantages of the scheme could be perceived as:

- The Council is 'at the mercy' of inflation effects rather than the availability of funds through the government grant settlement. (For example, in 2008/09, the CPI increase awarded to the scheme was 1.8%, whilst the Council only received 1% increase in RSG or 0.4% when taking into account grant previously paid by way of specific grant now subsumed within the grant settlement.
- The scheme cannot be updated without significant input from officers.
- The scheme is open to criticism from Parishes over 'real cost' increases (for example because of changes to health and safety requirements) versus inflation rate increases.
- There is a danger that the total allocations could exceed the budget provision.

## 1.6 The Way Forward?

- 1.6.1 I do not believe it is appropriate for a 'wholesale' review of this Scheme by this Board during the course of one meeting. If Members were minded to consider a wider review, then it would be appropriate to set up a working group and, no doubt, involve and consult the parish councils themselves.
- 1.6.2 Therefore, the purpose of this report is to identify whether there is a quick and easy solution that can be adopted in order to ease the financial burden without jeopardising the ethos of the Parish Charter.
- 1.6.3 In respect of the **Capital Grants** element of the Scheme, Members will appreciate that it is the loss of interest on the capital sum expended that has an impact on the revenue budget. So, with a capital budget of £100k per annum, the revenue impact through the loss of investment income is circa £5k per annum. In the context of the scheme as a whole, this is relatively modest.
- 1.6.4 It has been suggested informally that it might be possible to 'stagger' capital grant awards so that in effect they are awarded, say, every two years instead of every year. This could potentially 'save' £100k per annum in capital budget terms and £5k per annum in revenue terms – although it is likely in this situation that the demand every two years would be much greater and the £100k budget would be wholly insufficient.
- 1.6.5 If Members were to go down this route, I would suggest that a system of prioritisation would need to be introduced linking to the Council's Key Priorities; and it is likely that some projects would, regrettably, have to be turned down. I am

sure Members would not wish to introduce something like this lightly so, if this were to be considered, I would suggest that further work would be needed to ensure that the parameters of the Scheme were right. In the circumstances, Members might feel that this suggestion should be 'parked' for the time-being.

- 1.6.6 This being said the opportunity now exists to allow the parishes the consideration of this option and the 'beefing up' of the grant terms and conditions to ensure that grant monies allocated are spent on Council Priorities and in a timely manner.
- 1.6.7 In terms of the **Revenue Grants** aspect of the Scheme, Cabinet asked that the Board consider whether the annual uplift to the Scheme should be contained to the annual uplift the Council receives in its RSG settlement. As Members know, we now receive 3 year settlements from Government and the last settlement saw this Council receive 1.0% (0.4%), 0.5% & 0.6% in the three years 2008/09, 2009/10 and 2010/11.
- 1.6.8 By way of context, the current scheme for 2008/09 amounts to £292,000.
- 1.6.9 Whilst we were, and are still, disappointed with the increases that have been awarded by government, the nature of the settlement does mean that we know how much (or how little in our case!) we are to receive and we can plan ahead accordingly. If the Council were to restrict the uplift of the Financial Arrangements Scheme in line with the awards we had received from government, is this an opportunity to offer parishes a longer term settlement also? This might also assist them in planning ahead.
- 1.6.10 Given the timing of this report and the notification of the next round of three year settlements in 2010 for the 2011/12 financial year and beyond, members may feel it better to delay the implementation until 2010/11 but with the 2009/10 settlement increase so that consultation can take place. Alternatively, members may choose to implement the 2008/09 increase for the 2009/10 financial year. If the latter route were chosen, we would need to give early notice to the parish councils.
- 1.6.11 The table below compares these two options to the current CPI increase of 3.3%.

Year	Award	Increase %	Award £	Increase %	Award £	Increase %
2009/10	301,636	3.3 (CPI)	301,636	3.3 (CPI)	294,920	1.0
2010/11	311,590	3.3 (CPI)	303,144	0.5	296,394	0.5
2011/12	321,872	3.3 (CPI)	304,963	0.6	298,173	0.6

## 1.7 Legal Implications

- 1.7.1 The Financial Arrangements with Parish Councils are in accordance with Section 136 of the Local Government Act 1972 which says: "Two or more local authorities may make arrangements for defraying any expenditure by one of them in exercising any functions exercisable by both or all of them."

## **1.8 Financial and Value for Money Considerations**

1.8.1 As set out above.

## **1.9 Risk Assessment**

1.9.1 As with any grant scheme, there remains an element of risk associated with the third party's service delivery, however our experiences with the Parish Councils lead us to believe this risk is very small.

## **1.10 Recommendations**

1.10.1 Members are asked to consider the issues in this paper and consider whether any immediate adjustments to the Scheme are appropriate, given the financial context of the Council. Members are asked to make **RECOMMENDATIONS** to Cabinet as considered appropriate.

Background papers.

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Parish Charter

Guidance notes held by Accountancy Section

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