

TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE and PROPERTY ADVISORY BOARD

01 October 2008

Report of the Director of Finance and Cabinet Member for Finance

Part 1- Public

Matters for Recommendation to Cabinet

1 MEDIUM TERM FINANCIAL STRATEGY AND INITIAL BUDGETARY GUIDANCE

To consider factors that are likely to impact on the Council's finances for both the forthcoming budget cycle and Medium Term Financial Strategy, and to seek endorsement to the Budgetary Guidance issued to staff for the 2009/10 budget cycle.

1.1 Introduction

- 1.1.1 The Council's Medium Term Financial Strategy covers both capital and revenue budgets over a rolling six-year period, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the six-year period.
- 1.1.2 The Strategy sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. This currently includes achieving a balanced revenue budget by 2012/13 that delivers the Council's corporate aims and priorities and to retain a minimum of £3.0m in the General Revenue Reserve. The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.
- 1.1.3 The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Underneath the Strategy for the budget setting year sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.
- 1.1.4 The Medium Term Financial Strategy is the Council's high level financial planning tool and will need to be refreshed, updated and rolled forward as part of the 2009/10 budget setting process.
- 1.1.5 Last year it was largely the very poor local government finance settlement, not only for 2008/09, but for the three-year period 2008/09 to 2010/11 that placed the

Council's budget and Medium Term Financial Strategy under severe pressure with at that time a budget funding gap of £500,000.

- 1.1.6 This year the slow down in the economy, spiralling energy prices and inflation running at well above that reflected within the Medium Term Financial Strategy will place the Council's budget and Medium Term Financial Strategy under further severe pressure.

1.2 Medium Term Financial Strategy

- 1.2.1 Management Team has recently considered the factors that are likely to impact on the Council's finances for both the forthcoming budget cycle and Medium Term Financial Strategy in order to inform the budgetary guidance (paragraph 1.4 refers) issued to staff for the 2009/10 budget cycle.

- 1.2.2 It is probably worthwhile just reminding ourselves of the objectives currently set out in the Medium Term Financial Strategy.

- To achieve a balanced revenue budget by 2012/13 that delivers the Council's priorities by the end of the strategy period.
- To retain a minimum of £3.0m in the General Revenue Reserve by the end of the strategy period.
- Seek to balance the public's desire (as expressed in the 2007 and 2003 council tax surveys) not to see heavy council tax rises with the wish not to see services reduced.
- Where possible, ensure that expenditure on expanding and improving services is accommodated by omissions and reductions from elsewhere within the Council's budget.
- In respect of capital schemes coming forward for promotion to List A (the Capital Plan) give priority to those schemes that generate income or reduce costs.
- Develop a strategy so as to avoid, as far as possible, the threat of council tax capping by the Secretary of State.

- 1.2.3 There are numerous factors that need to be taken into account when updating the Strategy. Some of the more significant factors that are likely to impact on the Council's finances in the forthcoming budget round are given below.

Energy Prices

- 1.2.4 Members will no doubt be aware of recent increases in energy prices well above the prevailing rate of inflation, which is itself well above that currently reflected in the Medium Term Financial Strategy. The significantly above inflation increases

in energy prices will increase energy costs by an estimated £190,000 for our leisure premises and £40,000 for Council offices and other premises in a full year.

Inflation

- 1.2.5 The Consumer Prices Index is currently running at 4.7% (August) and the Retail Prices Index at 4.8% (August), both well above the 2.5 % reflected in the Medium Term Financial Strategy. Most of the Council's major contracts are uplifted annually by the Retail Prices Index. To put this into context, 1% on our major contracts equates to £37,000 in a full year.

Concessionary Fares

- 1.2.6 Kent County Council has agreed to bear the cost of the change in the start time to 9.00am from the statutory start time of 9.30am in respect of 2008/09. Furthermore, the latest estimate provided by MCL of the cost of the scheme is £811,463, a saving of £148,500 on the current budget. Whether we will see this level of saving come the end of the year is uncertain.

Investment Income

- 1.2.7 The Medium Term Financial Strategy approved by members as part of the 2008/09 budget cycle anticipated an investment return of 5.3% - 5.5% over the period of the medium term. Likely investment returns over the medium term are difficult to predict at any time and has been made no easier by the current economic climate. Discussions with the Council's Treasury Adviser and our Fund Manager would suggest a return of around 5% over the medium term would not be unreasonable.
- 1.2.8 To put this into context 0.5% would currently generate investment income of about £140,000.

Economic Climate

- 1.2.9 Many of our income streams are suffering due to the "credit crunch" and economic climate with income from fees and charges overall this year expected to be down against budget, whereas investment income is expected to be better than estimated this year. What is difficult to assess is when and how quickly will the economy "turn the corner" and what impact this will have on our income streams.
- 1.2.10 To put this into context, 1% of our major income streams including income from fees and charges at our leisure centres equates to about £100,000.
- 1.2.11 The Council can, to an extent, minimise the loss of income through economic downturn by reducing costs in related areas. For example, at the present time, due to the downturn in planning income, the Director of Planning, Transport and Leisure is holding vacant two planning posts. That said, Members will appreciate that there are fixed costs that need to be covered and there will, inevitably, be a

'net shortfall' that the Council will need to cover in its financial plans. The impact of this net shortfall will need to be factored into the MTFS.

- 1.2.12 As mentioned in paragraph 1.2.9, it is difficult to predict how long the current economic climate will prevail. Last week, the Governor of the Bank of England wrote an open letter to the Chancellor setting out how the Monetary Policy Committee intends to bring inflation back towards target and stabilise the economy. The letter is attached at **[Annex 1]** for Members' information. As Members will note, the Governor believes that the present rise in inflation, and the knock-on implications, are temporary.
- 1.2.13 For the purposes of the calculations in this latest update to the MTFS, the Director of Finance has assumed that the economic situation will "turn round" part way through 2011/12 and will, therefore, not prevail for the entirety of the MTFS. For Members' information, the Director of Finance has assumed a 'net shortfall' (see paragraph 1.2.11 above) of £600,000 in a full financial year, inclusive of the 'lost' income at our leisure centres.

Green Waste Collection

- 1.2.14 With the opening of Blaise Farm later this financial year the current "profit share" arrangement that the Council has been party to with the Kent County Council is to come under review. Early discussions with the County Council would suggest that our share could fall by up to £80,000. It should be noted that the County Council are not obliged to enter into such an arrangement and could if they so decided keep all of the "profit".

Housing and Planning Delivery Grant

- 1.2.15 We have recently been notified of our provisional Housing and Planning Delivery Grant allocation for 2008/09 which is £1,458,000. This is extremely good news and will certainly assist in underpinning and supporting the Medium Term Financial Strategy.

Capping

- 1.2.16 The Secretary of State still has powers under the Local Government Act 1992, as amended by the Local Government Act 1999, to limit the budgets of billing and precepting authorities and thereby limit the size of council tax increases. These capping powers have been used in recent years after the Government stated its intention to target authorities that bring in council tax increases of 5% or above, and it is assumed that this will continue.

1.3 Summary

- 1.3.1 An early update of the Medium Term Financial Strategy shows that the Council's finances are, again, under severe pressure. The provisional Housing and Planning Delivery grant allocation for 2008/09 has certainly assisted in underpinning the Medium Term Financial Strategy, but will not in itself resolve the problem.
- 1.3.2 Taking into account the factors outlined above, amongst other things, and having identified options to reduce costs and/or generate additional income of £394,500 as reported to Cabinet on 3 September, there is estimated to be a **new** funding gap in the order of **£450,000 to £650,000** to be addressed if the Council is to achieve its financial objectives as set out in the Medium Term Financial Strategy. The reason for the 'range' is the current **extreme** volatility in energy prices. To put this into context, within a matter of days projected increases changed from 40% to 67%! We will update Members on the evening of the meeting if we are able to give a more 'stable' picture.
- 1.3.3 Members will appreciate, therefore, that things never stand still and the Director of Finance will be updating the Medium Term Financial Strategy as we move through the budget cycle, but for now we have to work on the assumption that there is a funding gap in the order of £450,000 - £650,000 to be addressed.
- 1.3.4 Management Team will over the coming months consider options to address the new funding gap of £450,000 - £650,000 and report the outcome of their deliberations later in the budget cycle.

1.4 Budgetary Guidance for 2009/10 Budget Cycle

- 1.4.1 It is clear from the factors set out above that our budget and Medium Term Financial Strategy is under severe pressure.
- 1.4.2 Consequently, in consultation with Management Team, the Director of Finance has imposed a cash limit on 2009/10 expenditure (at the same level as the current 2008/09 budget) other than where contractual commitments exist or just reason can be given. In addition, the Director of Finance has reiterated the objective to maximise income subject to market conditions, opportunities and comparable charges elsewhere.
- 1.4.3 In terms of contractual commitments, as mentioned in paragraph 1.2.5 many of our major contracts are uplifted annually by RPI. The Council has no choice but to meet these increases as informed by the official RPI statistics.
- 1.4.4 Depending on how things progress, we cannot rule out the possibility for a general **cash reduction** in budgets as opposed to a cash standstill (paragraph 1.4.2).

1.5 Legal Implications

- 1.5.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.

1.6 Financial and Value for Money Considerations

- 1.6.1 As set out above.

1.7 Risk Assessment

- 1.7.1 The Local Government Act 2003 requires the Chief Finance Officer, when calculating the Budget Requirement and Council Tax Requirement, to report on the robustness of estimates included in the budget and the adequacy of the reserves for which the budget provides. Consideration will and is given to the risks associated with any budget setting process where various financial and other assumptions have to be made. To mitigate the risks detailed estimates are formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures and external advice on assumptions obtained where appropriate.
- 1.7.2 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool the Strategy needs to be reviewed and updated at least annually.

1.8 Recommendations

- 1.8.1 Cabinet is **RECOMMENDED** to:

- 1) Reaffirm in principle the broad objectives of the Medium Term Financial Strategy (paragraph 1.2.2 refers).
- 2) Acknowledge the financial challenges posed by the current economic climate, and the consequent need to address a new funding gap of circa £450,000 - £650,000 by 2009/10; and
- 3) Endorse the budgetary guidance issued to Chief Officers preparing and considering estimates and fees and charges for 2009/10 (paragraph 1.4.2 refers).

Background papers:

Nil

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