

TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE and PROPERTY ADVISORY BOARD

05 January 2011

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 REVENUE ESTIMATES 2011/12

The Council has a statutory duty to set the level of council tax for the forthcoming financial year by 11 March. Under the Budget and Policy Framework Rules of the Constitution, the Cabinet is responsible for formulating initial draft proposals in respect of the Budget. The role of this Advisory Board is to assist both the Cabinet and the Council in the preparation of the Budget within the context of the Medium Term Financial Strategy and the Council's priorities.

1.1 Introduction and Timetable

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget. This report is intended as the basis for recommendations from this Board to the Cabinet.
- 1.1.2 The proposals will also be referred to the Policy Overview Committee for further consideration and advice. The Policy Overview Committee has a meeting on the 18 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 1 February to consider the recommendations of this Board and the Policy Overview Committee and, in addition, take into account the Council's final grant settlement.
- 1.1.3 At that special meeting on the 1 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2011/12 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on 17 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.
- 1.1.4 The role of this Advisory Board is to consider in detail both the Revised Estimates for 2010/11 and the Estimates for 2011/12 within the context of the Medium Term Financial Strategy and the Council's priorities.

1.2 Medium Term Financial Strategy

- 1.2.1 The Council's current 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.
- 1.2.2 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 by the end of the strategy period. 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.
- 1.2.3 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. Since it was introduced in 2003 **the Medium Term Financial Strategy has been instrumental in protecting the services that are provided by the Council and it has enabled us to take a more measured approach than would have been possible without it.** However, it is not a panacea which can insulate the Council from the pending severe cuts in government funding.
- 1.2.4 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.
- 1.2.5 The Medium Term Financial Strategy itself is the Council's high level financial planning tool and will need to be refreshed, updated and rolled forward as part of the 2011/12 budget setting process.
- 1.2.6 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.

1.2.7 Members are fully aware of the significant financial pressures faced not only by local government, but the public sector as a whole in the current economic climate in which, as we have previously acknowledged the Comprehensive Spending Review and local government finance settlement are crucial pieces of a complex financial jigsaw puzzle.

1.2.8 Members are also no doubt aware that the outcome of the Comprehensive Spending Review was announced on the 20 October which suggested an average cut in funding for local authorities of 28% in real terms over the four-year period 2011/12 to 2014/15. How this would shake down to individual local authorities would not be known until the provisional local government finance settlement which was announced on 13 December.

1.3 Provisional Local Government Finance Settlement

1.3.1 The key messages arising from the provisional grant settlement, which is in effect a consultation ending on 17 January 2011, are:

- The Council's 2010/11 grant settlement of £6.522m has been reduced by £688,000 in the main to take account of the transfer of responsibility for concessionary fares giving an adjusted grant base of £5.834m for 2010/11. The adjusted grant base has then been reduced by 16.6% to give a 2011/12 provisional grant settlement of £4.863m (decrease of £971,000 against the adjusted grant).
- The 2011/12 provisional grant settlement of £4.863m has been reduced by £43,000 giving an adjusted grant base of £4.82m for 2011/12. The adjusted grant base has then been reduced by another £542,000 to give a 2012/13 provisional grant settlement of £4.278m. Total decrease is £585,000 or 12.04%.
- Figures for the remaining two years covered by the Comprehensive spending review have not been provided and we have, therefore, had to make an assumption about the further likely cut in general government grant in 2013/14 and 2014/15.

1.3.2 As can be seen from the above against an average cut in funding of 28% in real terms over the four-year period 2011/12 to 2014/15 referred to in the Comprehensive Spending Review we are looking at a 28% cut, in cash terms, over the next two years.

1.3.3 However, Members will recall that we made a commitment to undertake a fundamental review of our overall finances when a clearer picture began to emerge about the extent of the decrease in general government grant and, as a consequence the financial challenge faced by the Council. This review to include a detailed re-examination of the objectives set out in the Medium Term Financial Strategy (see paragraph 1.11).

1.4 Specific Issues

1.4.1 Following the practice we adopted in 2009/10, Members are advised that estimates in respect of income from fees and charges assume a “normal level” of activity with a ‘corporate adjustment’ to reflect the current downturn in the Council’s income due to the economic climate. The one exception is the Leisure Services Business Unit’s revised estimates for 2010/11. Latest forecasts and projections would suggest that the economic downturn is to be more protracted than originally envisaged. **For this reason we are to extend the economic downturn adjustment out to part way through 2014/15** at which time we would hope that income from fees and charges would return to previous (normal) levels.

1.4.2 Recommendations regarding fees and charges shown elsewhere on this agenda or to be reported to other Advisory Boards during this cycle of meetings are incorporated within the Estimates. Any changes required following consideration of fees and charges presented to this and other Advisory Boards will be incorporated before the Estimates are reported to Cabinet on 1 February.

1.4.3 The draft Estimates presented do not take account of the revenue consequences, other than loss of investment income, of new capital schemes to the Capital Plan (paragraph 1.9.3 refers). At its meeting on 1 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the Medium Term Financial Strategy and, where appropriate, recommend additions to the Capital Plan.

Corporate Services

1.4.4 The key issues are:

- 1) No provision has been made for a pay award from April 2011. However incremental advances are allowed for all staff not top of grade.
- 2) Revised estimate includes termination costs associated with the corporate establishment review reported to the meeting of the General Purposes Committee on 7 September 2009 funded entirely from an earmarked reserve.
- 3) Revised and forward estimates include income in respect of Tonbridge Gateway agreement, and other local authority partnership working arrangements.

- 4) Forward estimate includes provision for Borough elections in 2011, which are funded from an earmarked reserve.
- 5) Forward estimate reflects the transfer of responsibility for concessionary fares to the County Council from 1 April 2011.
- 6) Investment income reflects the fact that the Bank of England bank rate is now expected to remain at 0.5% for longer than originally anticipated.

Environmental Health Services

1.4.5 The key issues are:

- 1) Contract payments have been increased by 4.0% and 2.0% in 2010/11 and 2011/12 respectively.
- 2) The refuse collection, recycling and street scene budgets include provision for growth in new properties of £40,000.
- 3) The Council has carried out a number of Change 4 Life projects in 2010/11 using £10,000 Big Lottery funding.
- 4) Increased use of online media has seen a reduction in newspaper / magazine sales and consequently reduced recycling income.

Housing Services

1.4.6 The key issues are:

- 1) Housing benefit payments are less than originally estimated due to lower than anticipated rent increases in April 2010. This has been matched by a reduction in subsidy due. 2011/12 estimates assume a 10% increase in payments due to increases in caseload and rents.
- 2) The Council has received additional funding of £62,300 in 2010/11 from the Department for Work and Pensions (DWP) to assist with the increased workload arising from the current economic conditions.
- 3) The DWP is to reduce housing benefits and council tax benefits administration grant by 2.1% (£13,800) in 2011/12.

Leisure Services

1.4.7 The key issues are:

- 1) Estimates relating to contract payments have been increased by 4.0% and 2.0% in 2010/11 and 2011/12 respectively.

Planning and Transportation Services

1.4.8 The key issues are:

- 1) Reduction in car parking income due to the increase in the standard rate of VAT from January 2011.
- 2) Reduction in Penalty Charge Notice income due to drivers exhibiting more respect for waiting restrictions and committing fewer contraventions.

Leisure Services Business Unit

1.4.9 The key issues are:

- 1) Members will recall that historically the LSBU revenue estimates reflected a contract payment from the Leisure Services revenue estimates to the LSBU. This payment has now been removed from the revenue estimates to reflect that the LSBU is a directly operated service within Leisure Services. This approach more accurately reflects the trading position of the LSBU as an integral part of the Council.
- 2) Estimates allow no provision for a pay award. However incremental advances are allowed for all staff not top of grade.
- 3) The Council has entered a four year flexible procurement contract for the supply of gas and electricity. In 2011/12 it is anticipated, based upon current prices that the cost of utilities will rise against the 2010/11 original estimate by £28,200 and is reflected in the revenue estimates.
- 4) The revenue estimates are inextricably linked to the scale of charges report to the Leisure and Arts Advisory Board on 13 December 2010. The average uplift in the scale of charges across the LSBU is 2.6% (although Members should note that due to the VAT increase from 4 January 2011, the actual net increase to the Council in real terms is around 1%).
- 5) LSBU Central management costs are apportioned to reflect support at each facility.
- 6) The estimates allow for £27,500 previously funded by a grant from the Big Lottery Fund. This additional expenditure allows continued provision of the successful GP Referral Scheme. The Leisure Contracts Manager is hopeful that funding may be forthcoming in 2011/12 from the West Kent Primary Care Trust. The estimates already allow a sum of £24,000 from the Primary Care Trust to fund the post of Community Exercise Instructor.
- 7) The revenue estimates take into account trading patterns and other market factors however no allowance is made for economic downturn.

- 8) The overall projected estimate is a net deficit of £468,700 compared to a net deficit of £495,750 in the original 2010/11 estimate, i.e. a reduction in the cost of the LSBU of £27,050.

1.5 Revised Revenue Estimates 2010/11

- 1.5.1 The Revised Estimates show a **decrease over the Original Estimates of £161,350 prior** to making a contribution to/from the General Revenue Reserve. The principal reasons for the decrease are given in the table below.

Description	DR £	CR £	
Major Income Streams	494,250		
Revenue Reserve for Capital Schemes	120,000		
Investment Income	97,700		
Concessionary Fares	56,200		
Housing Benefits & Council Tax Benefits	36,650		
Winter Maintenance	25,000		
Plastic Recycling		20,000	
Cardboard Recycling		23,600	
Business Rates		31,300	
LABGI Scheme Grant		43,200	
Energy		52,100	
Benefits Administration Grant		62,300	
Software Support, Hire & Maintenance		67,600	
Partnership Receipts		69,100	
Tonbridge Gateway Agreement		141,600	
Economic Downturn		200,000	
Salaries & On-costs		243,000	
Other Net Changes		37,350	CR
Total	829,800	991,150	161,350

1.6 Revenue Estimates 2011/12

- 1.6.1 The draft Estimates 2011/12, as detailed in the accompanying Booklet, total £15,146,100 **prior** to making a contribution to/from the General Revenue Reserve. This represents an **increase of £126,800** or 0.8% over the Original Estimates for 2010/11. The principal reasons for this are given in the table below.

Description	DR £	CR £	
Revenue Reserve for Capital Schemes	350,000		
Investment Income	244,600		
Refuse, Recycling, Street Cleansing & Public Conveniences Contract Payments	166,150		
Economic Downturn	100,000		
Major Income Streams	65,150		
Housing Benefits & Council Tax Benefits	61,200		
Transitional increases in respect of Members Allowances	32,550		
Area Based Grant	28,800		
Business Rates	28,000		
Winter Maintenance	25,000		
Plastic Recycling		20,000	
Partnership Receipts		23,050	
Cardboard Recycling		30,000	
Tonbridge Gateway Agreement		141,600	
Salaries & On-costs		177,350	
Concessionary Fares		585,400	
Other Net Changes	2,750		DR
Total	1,104,200	977,400	126,800

1.7 Capping

- 1.7.1 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 major precepting authorities and thereby limit the size of council tax increases. These capping powers have been used in recent years after the Government stated it expected to see council tax increases of substantially less than 5%.
- 1.7.2 However, members may recall a consultation paper **entitled “Local referendums to veto excessive council tax increases”** reported to the September meeting of this Board. If the proposals set out in the consultation paper are adopted the existing capping regime will be repealed. Mr Pickles in recent speeches has indicated that capping will be repealed and local referendums introduced.
- 1.7.3 The assumption reflected within the Medium Term Financial Strategy approved by Council in February 2010 is that increases in council tax will be 3% year on year across the medium term. However, members will no doubt be aware of the Government’s commitment to freezing council tax in England for at least one year and to seek to freeze it for a further year, in partnership with local authorities. The Government is to provide funding over the period of the Comprehensive Spending Review to enable a ‘freeze’ in 2011/12, but as the base against which future increases would be made will be lower, this means there are hidden future implications that add to the savings we will have to make.

1.8 Draft Capital Plan

- 1.8.1 A report elsewhere on this agenda seeks to advise Members of the way forward on the Capital Plan. The Medium Term Financial Strategy commends that for schemes coming forward for promotion to List A, priority will be given to those schemes which generate a net income or reduce costs.
- 1.8.2 In the context of the overall financial situation, this may mean that other schemes will go ahead only if the revenue costs can be accommodated from reductions elsewhere in the budget, or if fees and charges, additional to those assumed within the Medium Term Financial Strategy, can be generated. Indeed, in the Capital Plan report elsewhere on the agenda it is emphasised that due to the pressure on the revenue budget **it is unlikely that there will be scope to transfer many schemes to List A.**
- 1.8.3 The Capital Plan review report recommends schemes for inclusion on List B, the short-list of schemes for possible inclusion in the Capital Plan (subject of course to the emboldened comment above). Members are reminded that the selection from List B, of schemes to be included in the Capital Plan (List A) – if any – will be made at Cabinet on the 1 February for endorsement by Council. With this in mind Members are advised that the revenue consequences, other than loss of investment income, of new capital schemes **have yet to be incorporated within the Estimates.**
- 1.8.4 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of our assets which deliver services as well as providing money for statutory services, e.g. Disabled Facilities Grants. In order to get to this position, a few years ago Cabinet agreed to adopt a new approach with regard to the preparation of the Capital Plan.
- 1.8.5 It is probably worthwhile just reminding ourselves of the new approach where, other than funding for the replacement of our assets which deliver services as well as providing money for statutory services, there is now an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance.
- 1.8.6 In setting the budget for 2010/11 and in advance of the fundamental review of the Council's finances that allowance was set at £350,000. For members' information calls against the 2011/12 allowance currently total £241,000.

1.9 Consultation with Non-Domestic Ratepayers

- 1.9.1 Before the Borough Council determines the amount of its total estimated expenditure and makes calculations of its requirements for the ensuing financial year, it consults representatives of its non-domestic ratepayers about its

expenditure proposals (including capital expenditure). The consultees, who include the local Chambers of Commerce as well as a group of the larger ratepayers in the Borough, receive on request information and copies of the draft budgets and are invited to make written representations if they deem it appropriate. Any points of clarification required are dealt with by telephone, written correspondence or, if appropriate, an informal meeting with officers.

- 1.9.2 Any comments or representations received from the consultees will be reported to members throughout the budget process.

1.10 Fundamental Review of our Overall Finances

- 1.10.1 As mentioned at paragraph 1.3.3 we made a commitment to undertake a fundamental review of our overall finances when a clearer picture began to emerge about the extent of the decrease in general government grant and, as a consequence the financial challenge faced by the Council. This review to include a detailed re-examination of the objectives set out in the Medium Term Financial Strategy. That re-examination to consider, for example: not should we, but by when should we look to achieve a balanced budget; the appropriateness of the current minimum general revenue reserve balance; and the period covered by the strategy period.
- 1.10.2 Some work on the fundamental review has already been undertaken. We have, for example, **remodelled the Medium Term Financial Strategy over a ten-year period setting the minimum general revenue reserve balance at £2m**. The Accountancy Section in liaison with Services recently completed an exercise comparing historic spend against the existing budget provision to identify where there might be scope to reduce the budget. In addition, over the coming year we will be examining our annual spend on capital renewals of around £1.1m to identify where there might be scope to reduce expenditure which, in turn, would have a direct impact on the budget requirement.
- 1.10.3 Clearly, the fundamental review is 'work in progress' and the remodelled Medium Term Financial Strategy will be refined and updated as we move through the budget cycle. What then is an early update of our Medium Term Financial Strategy telling us following the provisional local government finance settlement announcement?
- 1.10.4 Based on the provisional local government finance settlement for 2011/12 and 2012/13 and an assumption about the further likely cut in general government grant in 2013/14 and 2014/15, very early projections would suggest a budget funding gap of **circa £2.0m**.
- 1.10.5 The good news is that we do have a robust Medium Term Financial Strategy and the existence and discipline of the same affords us the time to take a constructive and considered approach to budgetary pressures. Clearly, the absolute size of the budget funding gap will influence the timescales we afford ourselves to address the problem. Based on the above projection we could, for example,

breakdown the savings target into three tranches – tranche one would be in the order of £750,000 as would tranche two to be achieved by 2012/13 and 2013/14 respectively. The final tranche would be in the order of £500,000 to be achieved by 2015/16. **Clearly, we will need to continue to look to take advantage of savings opportunities and efficiencies throughout this period as a matter of course.**

- 1.10.6 Members may have seen reports on the proposed New Homes Bonus scheme and on proposals to devolve the setting of planning fees to the local authority presented to the special Cabinet meeting on 15 December. If the proposals set out in these papers are endorsed with the New Homes Bonus scheme continuing for the period of this Parliament, this would bring greater flexibility as to the timescales we afford ourselves to address the problem.
- 1.10.7 Other recent government proposals / announcements if endorsed that may have an impact on the Council's finances and, in turn, the Medium Term Financial Strategy over the medium to longer term are:
- Cessation of administration of housing benefits from 2017/18.
 - Localisation of council tax benefits.
 - Local government funding review.
 - The potential for local retention of business rates to be explored via the Local Government Resource Review
- 1.10.8 As mentioned earlier the remodelled Medium Term Financial Strategy is 'work in progress' but we hope that this report will at least give Members some comfort and reassurance concerning the resilience of our Medium Term Financial Strategy and that the financial pressures faced by the Council can be addressed in a measured and controlled way.

1.11 Legal Implications

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

1.12 Financial and Value for Money Considerations

- 1.12.1 As set out above.

1.13 Risk Assessment

- 1.13.1 The Local Government Act 2003 requires the Chief Financial Officer, when calculating the Budget Requirement and Council Tax Requirement, to report on the robustness of the 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.

1.13.2 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.

1.14 Equality Impact Assessment

1.14.1 See 'Screening for equality impacts' table at end of report

1.15 Recommendations

1.15.1 The Advisory Board is requested to:

- 1) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 1 February.
- 2) Within the context of the financial pressures outlined in the report, request that the Policy Overview Committee consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 1 February.
- 3) Recommend formally moving to a Medium Term Financial Strategy covering a ten-year period and to set a minimum general revenue reserve balance of £2m.

Background papers:

Nil

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Sharon Shelton
Director of Finance

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	Yes	Some changes to budgets may have potential to cause adverse impact and where this is deemed to be the case a separate report including an equality impact assessment has or will be undertaken at the appropriate time, e.g. decision to be taken on rail cards.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report sets out draft proposals in respect of the Budget for the forthcoming year within the context of the Medium Term Financial Strategy and the Council's priorities. As mentioned above changes to budgets where there are deemed to be equality issues a separate equality impact assessment has or will be undertaken at the appropriate time.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		See responses above.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.