

TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE and PROPERTY ADVISORY BOARD

04 January 2012

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 REVENUE ESTIMATES 2012/13

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 for 2012/13 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 Overview and Scrutiny Committee for further consideration and advice. The Overview and Scrutiny Committee has a meeting on the 10 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 7 February to consider the recommendations of this Board and the Overview and Scrutiny Committee and, in addition, take into account the Council's final grant settlement.
- 1.1.3 At that special meeting on the 7 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2012/13 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 16 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 2011/12 and the Estimates for 2012/13 within the context of the Medium Term Financial Strategy (MTFS) and the Council's priorities. The Advisory Board is not asked to consider the MTFS, but for completeness, details of how we are updating the MTFS are contained within this report for information.

1.2 Medium Term Financial Strategy

- 1.2.1 The Council's Medium Term Financial Strategy covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period.
- 1.2.2 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 severe cuts in government funding.
- 1.2.3 Given the scale of the financial challenge faced by the Council as part of the 2011/12 budget setting process we moved to a Medium Term Financial Strategy spanning a ten-year period; and set the following two fundamental objectives: to maintain a minimum general revenue reserve balance of £2.0m and to achieve a balanced budget by the end of the strategy period.
- 1.2.4 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. 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 2012/13 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** that delivers the Council's priorities by the end of the strategy period.
 - To retain a **minimum of £2.0m** in the General Revenue Reserve by the end of the strategy period.
 - For 2011/12, freeze the council tax at 2010/11 levels; and thereafter seek to set **future increases in council tax having regard to the guidelines** issued by the Secretary of State.
 - Over the strategy period, **continue to identify efficiency savings** within the Council's budget to contribute towards the identified 'funding gap'; and, if necessary thereafter, **seek appropriate reductions in service costs** following consultation, as necessary, with taxpayers.

- Set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (for 2011/12 set at £350,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

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. The financial difficulties the entire public sector is facing are unprecedented, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.3 Provisional Local Government Finance Settlement

1.3.1 On 8 December 2011, the Parliamentary Under Secretary of State for Communities and Local Government, Bob Neill MP, published a written statement concerning the provisional local government finance settlement for 2012/13. Each local authority's actual allocation is expected to be confirmed in January 2012.

1.3.2 In his written statement, Bob Neill MP also set out the levels of council tax increase above which he intends to require local authorities to seek approval of their electorate via a local referendum. **For most principal authorities (including district councils) this was set at 3.5%.** He also announced that no equivalent principles will apply for town and parish councils for 2012/13, although they may in future years; and he will set out the final principles for this regime at the time of the final settlement.

1.3.3 Provisional formula grant allocations for 2012/13 were initially announced as part of the local government finance settlement 2011/12 and the basic funding allocations announced on the 8 December remain unchanged from those published on 7 February 2011.

1.3.4 The key messages arising from the provisional grant settlement, which is in effect a consultation ending on 16 January 2012 are:

- The 2011/12 grant settlement of £4,889,857 has been reduced by £43,183 giving an adjusted grant base of £4,846,674 for 2011/12. The adjusted grant base has then been reduced by 11.9% or £576,785 in cash terms to give a **2012/13 grant settlement of £4,269,889.** Thus, against a national 'average' cut in funding of 28% over the four-year period 2011/12 to 2014/15 referred to in the 2010 Comprehensive Spending Review, Tonbridge and Malling Borough Council has seen a cut of more than 28% over the two-year period 2011/12 to 2012/13.
- Included in the 2012/13 provisional settlement is the 2011/12 council tax freeze grant which for us is £210,630 giving a total settlement figure of £4,480,519 (£4,269,889 + 210,630).

- 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 when formulating the MTFs. However, Members will be aware of the main proposals for Business Rates Retention which if introduced would replace Formula Grant funding. Under the proposals funding above a minimum amount is dependent on growth in an authority's business rates base which clearly makes it difficult to predict future funding levels for medium term financial planning purposes. It can be envisaged that under such a system in some years an authority would 'do well' and in others 'not so well' (funding would be 'lumpy'), but that over the medium to long-term there will be a large group of authorities for whom the change does not make a great difference. What is likely, however, is that a greater amount of financial 'risk' will be passed to local authorities and, therefore, it will be imperative that councils have sufficient levels of reserves to tide them over during any 'bad' times. For the purposes of medium term financial planning all we can do for the time being is assume we will be no better or worse off under this system than under the current arrangements.

1.4 Specific Issues

- 1.4.1 Our major income streams continue to suffer due to the current economic climate. Members will recall that this time last year we assumed that after taking into account of action to reduce costs in related areas there would remain a net shortfall of £1,125,000 and that the economy will have recovered part way through 2014/15.
- 1.4.2 Latest forecasts and projections would suggest that the economic downturn is to be more protracted than originally envisaged, and of more concern is that it is becoming apparent that we have seen a **permanent** rather than temporary reduction in some of our major income streams due to changes in behaviour and/or competition and the implications this has for the Medium Term Financial Strategy and the size of the 'funding gap'.
- 1.4.3 For this reason income estimates will in future be based on current income levels rather than what has been referred to as a 'normal' level of activity. This will require us to reflect within the Medium Term Financial Strategy an increase in income levels when the economy improves and confidence returns, but when this will be and to what extent is difficult to forecast. Members are also advised that increased customer use of Freedom of Information (FoI) and Environmental Information Regulations (EiR) may impact on a range of income streams over the life of the Medium Term Financial Strategy and the Management Team will continue to monitor this.
- 1.4.4 In terms of the council tax base, we have continued to assume growth in the number of band D equivalents based on the 'average' growth over the past few

years. Members will also be aware that this 'growth' (or otherwise) will impact on the level of the New Homes Bonus that the Council might receive in the future.

- 1.4.5 It is important to recognise, however, that, currently, the timing of development growth is very difficult to predict given the market as well as other site specific conditions. Therefore, our assumption about the growth in taxbase for the MTFs comes with a 'health warning' and we ask Members to note that we will be keeping development progress under close review as we move forward.
- 1.4.6 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 7 February.
- 1.4.7 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 1.8.3 refers). At its meeting on 7 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the MTFs and, where appropriate, recommend additions to the Capital Plan.

Corporate Services

- 1.4.8 The key issues are:
- 1) Forward estimates reflect a reduction in staffing costs of circa £400,000 and also include a provision for the April 2012 pay award. An increased management savings target has also been incorporated which will be closely managed and monitored by the Management Team.
 - 2) Income from partnership working with other authorities has increased by £134,000.
 - 3) Land Charges income reflects current activity levels.
 - 4) Community Enhancement Fund provision of £84,000 for the Parish Council and Jubilee events round to be met from New Homes Bonus.
 - 5) Financial Arrangements with Parish Council payments have been reduced by £45,000 as a result of the methodology previously agreed.
 - 6) Investment income reflects delay in bank rate rise from current 0.5%. First rise is expected in quarter starting September 2013.

Environmental Health Services

- 1.4.9 The key issues are:

- 1) The budget provisions for contract payments have been increased by 5.0% reflecting the level of inflation (RPI) at the time of preparing the estimates. In reality, this could prove to be lower (or indeed higher).
- 2) The refuse collection, recycling and street scene budgets include provision for growth in new properties (£40,000).
- 3) The Council has carried out a number of Change 4 Life projects using £10,000 Big Lottery funding.
- 4) Recycling income reflects actual levels of tonnages collected during the current year.
- 5) There have been significant variations in recycled material prices and tonnages collected.
- 6) Forward estimates reflect an anticipated 4% reduction in paper tonnages due to changes in behaviour.

Housing Services

1.4.10 The key issues are:

- 1) Housing benefit payments are less than originally estimated due to lower than anticipated rent increases in April 2011. This has been matched by a reduction in subsidy due. 2012/13 estimates assume a 5% increase in payments due to increases in caseload and rents.
- 2) The Council received additional funding of £66,700 from the Department for Work and Pensions (DWP) in 2011/12 to assist with the additional workload arising from the current economic climate.
- 3) The DWP has cut the 2012/13 administration grant by 7.3%.

Leisure Services and Leisure Services Business Unit (LSBU)

1.4.11 The key issues are:

- 1) The budget provisions for contract payments have been increased by 5.0% reflecting the level of inflation (RPI) at the time of preparing the estimates. In reality, this could prove to be lower (or indeed higher).
- 2) Golf green fee income reflects actual levels of usage.
- 3) Rates have been increased by 5.6%.
- 4) The salary estimates of the LSBU reflect both the 2.5% increase in the National Minimum Wage and an increase of 3.1% to reflect the revised guidance related to 'rolled up' holiday pay for casual staff.

- 5) The cost of utilities in respect of the LSBU is based upon the revised cost in 2011/12 plus an additional 5% in line with the projection in the MTFS.
- 6) The income estimates in respect of the LSBU are inextricably linked to the scale of charges report to the Leisure & Arts Advisory Board on 12 December 2011. The average uplift in the scale of charges across the LSBU is 2.9%. Income estimates also allow for the full year impact of the revised approach to Swim School introduced in September 2011.

Planning and Transportation Services

1.4.12 The key issues are:

- 1) Planning application fees, building regulation fees and car parking charges reflect current activity levels.
- 2) Parking income reflects increases in charges approved by Cabinet on 19 July 2011.

1.5 Revised Revenue Estimates 2011/12

1.5.1 The Revised Estimates show a **decrease over the Original Estimates of £344,500 prior** to making a contribution to/from the General Revenue Reserve. The principal variations are given in the table below.

Description	DR £	CR £	
Major Income Streams	1,316,300		
Community Enhancement Fund	500,000		
Invest to Save Reserve	50,000		
Refuse, Recycling, Street Cleansing & Public Conveniences Contract Payments	49,550		
Office Security	34,000		
Termination Payments	32,600		
Energy	31,700		
Choosing Health / Big Lottery		25,000	
Recycling Credits – Collection		28,000	
Contribution from Other Bodies		30,000	
Land Charges Grant		34,350	
Housing Benefits & Council Tax Benefits		52,250	
Benefits Administration Grant		66,800	
Partnership Receipts		120,600	
Salaries & Contributions		332,600	
New Homes Bonus		648,350	
Economic Downturn		1,125,000	
Other Net Changes	104,300		CR
Total	2,118,450	2,462,950	344,500

1.6 Revenue Estimates 2012/13

- 1.6.1 Members may recall from my report to Cabinet in October 2011 that my budgetary guidance for 2012/13 included a target placed on Management Team to 'shave out' of the draft Estimates a sum of at least £300,000 before they were presented to Members at this meeting. This was, of course, only the start of the process into identifying and implementing the more significant savings targets, but was an important start none-the-less.
- 1.6.2 I am pleased to report that this initial target has been achieved. The draft Estimates 2012/13, as detailed in the accompanying Booklet, total £14,171,250 **prior** to making a contribution to/from the General Revenue Reserve. This represents a **decrease of £730,400** or 4.9% over the Original Estimates for 2011/12.
- 1.6.3 In short, one of the key reasons for the decrease come as a result of further reductions in staffing either through partnership working or indeed through establishment reviews. Members should note that these Estimates incorporate the financial implications of establishment reviews within Leisure Services and the Transportation division which will be formally reported to the General Purposes Committee on 30 January.
- 1.6.4 For completeness, the principal variations are given in the table below.

Description	DR £	CR £
Major Income Streams	1,193,650	
Refuse, Recycling, Street Cleansing & Public Conveniences Contract Payments	257,200	
Council Tax Freeze Grant	211,900	
Energy	67,250	
Business Rates	53,600	
Benefits Administration Grant	47,800	
Transitional increases in respect of Members Allowances	42,950	
Investment Income	40,950	
Ground Maintenance Contract Payments	35,250	
Office Security	34,000	
Contribution to Community Safety Staffing	29,250	
Software Support & Maintenance	26,300	
Insurance	25,600	
Water & Sewerage	25,250	
Recycling Credits – Collection		36,400
Financial Arrangements with Parish Councils		45,250
Partnership Receipts		135,150

Salaries & Contributions		190,900	
Economic Downturn		1,125,000	
New Homes Bonus		1,224,500	
Other Net Changes		64,150	CR
Total	2,090,950	2,821,350	730,400

1.7 Local Referendums to Veto Excessive Council Tax Increases

- 1.7.1 The Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.
- 1.7.2 As mentioned at paragraph 1.3.2 in his written statement, Bob Neill MP set out the levels of council tax increase for 2012/13 above which he intends to require local authorities to seek approval of their electorate via a local referendum. For most principal authorities (including district councils) this was set at 3.5%.
- 1.7.3 The assumption reflected within the Medium Term Financial Strategy approved by Council in February 2011 is that increases in council tax from 2012/13 will be 3% year on year across the medium term.
- 1.7.4 However, Members will no doubt be aware of the Government's commitment to freezing council tax in England for a further year, in partnership with local authorities. As I reported to Cabinet in October, the Government has announced that it will provide funding (representing a 2.5% increase) but for one year only, to enable a 'freeze' in 2012/13.
- 1.7.5 As was discussed at Cabinet in October, it should be remembered that a council tax freeze is a bit of a 'double-edged sword'. The benefit to the taxpayer is, of course, desirable and the government grant offsets the in-year "loss" to the local authority - **BUT** as the base against which future council tax increases would be made will be lower, there are hidden future implications that simply add to the overall savings we will have to make.
- 1.7.6 By way of example, my latest projections would suggest that
- If Members were to implement the 'freeze' and accept the one-off grant, our four saving tranches will need to be in the order of £760,000.
 - If Members increase the council tax by 3%, those four tranches would reduce to £670,000.
 - If we increase the council tax by 3.49% (at the limit of the threshold set by the Secretary of State) those four tranches would reduce to £660,000.

1.7.7 It is not for Members of this Advisory Board to make recommendations in respect of a council tax freeze, or otherwise. It is my intention to report to the meeting of Cabinet on 11 January in order to establish Cabinet's initial view regarding the level of council tax increase (if any) to be applied so that I can build that assumption into the update of the MTFs. The MTFs, the estimates for 2012/13 and the recommended level of council tax for 2012/13 will be considered by the Cabinet at a meeting on 7 February.

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 7 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 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.

1.8.5 In setting the budget for 2011/12 that allowance was set at £350,000.

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 Early Update of our Medium Term Financial Strategy

- 1.10.1 Members may recall the report to the Cabinet meeting in October setting out factors that had only served to put further upward pressure on the size of the 'funding gap'. Indeed, at that time, consideration of factors likely to impact on the Council's finances for both the 2012/13 budget cycle and over the medium term suggested a 'funding gap' in the order of £2.9m (after some immediate savings of circa £300,000 have been realised – see paragraphs 1.6.1 and 1.10.5).
- 1.10.2 The report also suggested, as in previous iterations of the Medium Term Financial Strategy, that we could breakdown the savings target into tranches. For example, we could breakdown the savings target into four equal tranches of £725,000 to be achieved by 2013/14, 2014/15, 2016/17 and 2017/18.
- 1.10.3 As mentioned at paragraph 1.7.6 latest projections would suggest four saving tranches in the order of £760,000 (council tax freeze) reducing to £670,000 (increase in council tax 3%) and to £660,000 (increase in council tax 3.49%).
- 1.10.4 Cabinet were also advised that in response to this further upward pressure on the size of the 'funding gap', I had presented a report to Management Team setting out a three stage approach to begin tackling the significant financial challenge faced by the Council.
- Stage One – adjust budgets on the back of our continuous establishment reviews and most particularly on the back of our decision regarding the demise of the economic downturn adjustment.
 - Stage Two – review of all budget lines when completing budget estimates for 2012/13 with the aim of reducing costs wherever possible.
 - Stage Three – will be the more radical steps we need to take in order to address the budget 'funding gap'.

1.10.5 Having regard to Stages One and Two of the process set out above, it was anticipated that a sum of at least £300,000 would have been “shaved out” of the 2012/13 base budget and that the achievement of this ‘target’ was reflected in the Medium Term Financial Strategy in arriving at the ‘funding gap’ of £2.9m. As I mentioned at paragraph 1.6.2, I am very pleased that ‘savings’ in excess of £300,000 have been achieved.

1.10.6 Clearly, the Medium Term Financial Strategy will continue to be updated as we move through the 2012/13 budget cycle and as more information becomes available.

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 7 February.

- 2) Within the context of the financial pressures outlined in the report, request that the Overview and Scrutiny 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 7 February.

Background papers:

contact: Sharon Shelton

Nil

Neil Lawley

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.
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.