

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

07 February 2012

Supplementary Report of the Chief Executive, Director of Finance, Leader and Cabinet Member for Finance

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET 2012/13

Further to reports to the meeting of the Finance and Property Advisory Board and Overview and Scrutiny Committee earlier in the cycle, this report updates Cabinet on issues relating to the Medium Term Financial Strategy. It takes Members through the necessary procedures in order to set the budget for 2012/13.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 23 February, Members will determine both the Budget and the level of council tax for 2012/13.
- 1.1.2 The detailed Estimates for 2012/13 prepared by your Officers, having regard to the guidance given by Cabinet, have been carefully considered by both the Finance & Property Advisory Board and the Overview & Scrutiny Committee. Details are set out at paragraph 1.3 below.
- 1.1.3 Whilst the primary purpose of this report is for Cabinet Members to recommend the Budget and resultant level of council tax for 2012/13; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy, which now extends over a 10 year period. Financial decisions made in respect of the year 2012/13 will have an impact across the MTFS and upon the savings targets the Council will need to achieve in order to 'balance its books'. As Members will fully appreciate, it has been one of the Council's strong objectives throughout these times of 'challenge' to preserve, for as long as possible, the Services that are provided to and valued by residents. However, the scale of this particular 'challenge' must not be lost sight of.
- 1.1.4 As Members are already aware from previous reports, an offer from the Secretary of State is a 'one-off' council tax freeze grant payable in 2012/13 only. The grant would only be payable if the council tax increase prior to the grant being applied is limited to 2.5%. (In other words, the government would fund through grant the

value of a 2.5% increase on a one-off basis). The value of the grant to TMBC is in the order of £213,000.

- 1.1.5 As discussed in some depth at the last meeting of the Cabinet, however, this offer needs to be considered in the context of the implications for the medium term given that our previous financial modelling has been undertaken assuming that the council tax income base would have increased by circa 3% in 2012/13.
- 1.1.6 One issue arising from the Localism Act is that authorities whose council tax increase exceeds a threshold determined by the Secretary of State will be required to hold a council tax referendum. The headline ‘trigger’ point for most principal authorities is 3.5%, but the headline masks a technical complication involving levies from drainage boards.
- 1.1.7 In short, having received details from both the Upper and Lower Medway Drainage Boards regarding their levies and updated our Estimates accordingly, for Tonbridge & Malling Borough Council the ‘trigger’ would be a fraction over 2.9%. Therefore, for the purposes of this report, if the Council were to contemplate an increase in council tax for 2012/13 we would advise that the increase should be limited to 2.9%.
- 1.1.8 It is for Members at both Cabinet and Full Council to weigh up the merits of accepting a council tax freeze (and the single payment of grant) as opposed to increasing council tax to a limit of 2.9%. Cabinet’s role is to provide guidance or recommendations to the Full Council as to the way forward.
- 1.1.9 It must be remembered that, in either case, the Council has a significant challenge ahead in respect of identifying and implementing savings over the next few years. Our calculations show that savings of circa £2.54m will be needed should a council tax increase of 2.9% be approved; alternatively those savings will increase by a further £360,000 should the one off grant be accepted and the council tax frozen.
- 1.1.10 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance is required to draw to our attention in order to provide assurance and advice to aid our decision making. The report is therefore broken down into sections dealing with the following areas:
- Local Government Finance Settlement
 - Revenue Estimates 2012/13
 - Fees and Charges
 - Capital Plan
 - Prudential Code and Treasury Management Strategy Statement and Annual Investment Strategy

- Consultation with Non-Domestic Ratepayers
- Update of Medium Term Financial Strategy
- Collection Fund Adjustments
- Parish Councils
- Robustness of Estimates/ Adequacy of Reserves
- Calculation of Budget Requirement 2012/13
- Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

1.2.1 The formula grant allocations for 2012/13 provisionally announced on 8 December 2011 and confirmed in correspondence from CLG on 31 January 2012 remain unchanged from those published as part of the 2011/12 local government finance settlement. Members should note, however, that the figures are not due to be debated in the House until 8 February. A copy of the statement published by The Parliamentary Under Secretary of State for Communities and Local Government on 31 January is attached at **[Annex 1a]** for Members' information.

1.2.2 The key messages arising from the local government finance settlement 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, Tonbridge and Malling Borough Council have 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 Medium Term Financial Strategy. However, Members will be aware that from April 2013 a Business Rates Retention scheme is to 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. 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.

- 1.2.3 A comparison of our grant settlement for 2012/13 with those of other Kent district councils is provided at **[Annex 1b]**.

1.3 Revenue Estimates 2012/13

- 1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2012/13 were presented to the meeting of the Finance and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Board and of the Committee is to assist both the Cabinet and the Council in the development of its budget within the context of the Medium Term Financial Strategy and the Council's priorities. Whilst a number of questions were posed by Members at these meetings, the Revenue Estimates as presented were endorsed subject to the further deferral of the transitional increase in Members' Allowances as recommended by the Joint Independent Remuneration Panel (and adjusted for an additional Cabinet Member allowance).
- 1.3.2 As set out in the 'holding' report circulated with the agenda, from a purely **technical point of view**, whether the Council makes a decision to accept the 'freeze' grant or not, affects the 'Summary Total' for the 2012/13 Estimates. Therefore for completeness and transparency, the table below illustrates the position for 2012/13 for both scenarios. The figures have also been updated having received details from the Internal Drainage Boards of actual or proposed levies.

	Revised Estimate 2011/12 £	Original Estimate 2012/13 (no freeze) £	Original Estimate 2012/13 (freeze) £
Summary Total reported to Finance and Property Advisory Board on 4 January	14,557,150	14,171,250	14,171,250
Members Allowances		(29,400)	(29,400)
General Purposes Committee – IT Services Shared Management Arrangements		(63,400)	(63,400)
Internal Drainage Boards		(46,000)	(46,000)
Council Tax Freeze Grant			(213,050)
Current Summary Total	14,557,150	14,032,450	13,819,400

1.3.3 Members' attention is returned to the issue of the council tax freeze grant later in the report.

1.4 Fees and Charges

1.4.1 During the course of this budget cycle Members have, via the Advisory Boards, made recommendations regarding the levels of fees and charges to be implemented. A summary of the recommendations from Advisory Boards is set out at **[Annex 2]**. As Members have been advised previously, it has been assumed, whilst drafting these Estimates that the recommendations made will be agreed by the Cabinet.

1.4.2 Cabinet is accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the Advisory Boards noting that the recommendations in respect of Building Regulation Fees were endorsed by the Cabinet at its meeting on the 11 January 2012.

1.5 Capital Plan

1.5.1 As reported in the holding report, the Capital Plan Review process started at the Finance and Property Advisory Board on 4 January followed by the Overview and Scrutiny Committee on 10 January.

1.5.2 Members' attention was drawn to the considerable financial pressure facing the Council's revenue budget and the impact capital projects can have on revenue. It was, however, also acknowledged that some capital projects can have a beneficial effect on the revenue position by either generating additional or new income, or alternatively producing cost savings in due course.

1.5.3 Members were also reminded that the revenue reserve for capital schemes provided the main source of funding for existing and any new schemes that are introduced into the Capital Plan.

1.5.4 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.

1.5.5 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. That allowance has been set at £350,000.

1.5.6 After debates, the Finance and Property Advisory Board and Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers

subject to the Capital Plan process be simplified in future with schemes progressing on the basis of the three criteria specified (health and safety, externally funded or reducing the Council's costs). Details of the recommendations below can be found in the following annexes.

- 1) The Capital Plan (List A) provisions as summarised in **[Annex 3]** be adopted.
 - 2) The schemes listed in **[Annex 4]** are added to List C.
 - 3) The schemes listed in **[Annex 4]** are deleted from List C.
 - 4) The schemes listed in **[Annex 5]** are selected for evaluation over the coming year, with those so indicated, selected for fast track evaluation of which four have already been evaluated.
 - 5) The evaluated List C schemes including those schemes selected for fast track evaluation that have already been evaluated are progressed in accordance with the recommendations shown in **[Annex 6]**. The capital cost of the four schemes recommended for fast track evaluation in 2012/13 (please note the capital cost in respect of the Renewal of Heating System scheme has been updated) is also given in **[Annex 6]**. The combined effect of the capital cost of evaluated schemes of £208,000 and putting aside capital funding of £243,000 for fast track schemes yet to be evaluated gives rise to a shortfall against the capital allowance of £101,000. It is recommended that the shortfall in funding be met from funds no longer required in respect of existing schemes.
- 1.5.7 The schemes which have been evaluated are summarised below including the Gibson Building West Renewal of Heating System scheme identified for fast track evaluation, the evaluation of which can be found elsewhere on this agenda. For information, indicative, estimated annual revenue costs are also shown. The amount and timing of the revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income.
- 1.5.8 If the schemes recommended for transfer from List C to List B are transferred to the Capital Plan List A including the Gibson Building West Renewal of Heating System scheme, the estimated revenue consequence is £16,300 in 2012/13 and £(26,300) in subsequent years.

Scheme	Capital Cost £	Revenue Impact	
		2012/13 £	2013/14 £
Car Park Enhancement Programme Phase 5	50,000	2,500	2,500
Larkfield Leisure Centre Dance / Exercise Studio	100,000	5,000	(30,950)
Tonbridge Swimming Pool Changing Village Floor	20,000	1,000	3,500
Racecourse Sportsground Improvements	65,000	0	(7,500)
Haysden Country Park Bridge Repairs	8,000	400	400
Open Spaces Site Improvements	69,000	0	2,250
Tonbridge Cemetery Path Improvements	12,000	0	0
Finance Electronic Document Management	30,000	1,500	1,500
Gibson Building West Renewal of Heating System	160,000	5,900	2,000
Sub-total	514,000	16,300	(26,300)
Less Developer Contributions / Current Budget Prov.	(188,000)		
Total	326,000	16,300	(26,300)

- 1.5.9 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.5.8 is attached at **[Annex 7]**.
- 1.5.10 A funding statement based on **[Annex 7]** is attached at **[Annex 8]**. The main source of funding is the Revenue Reserve for Capital Schemes and the impact on the Revenue Reserve for Capital Schemes is illustrated in **[Annex 9]**.
- 1.5.11 When we reported last year on the transfer of List B schemes to List A, the Tonbridge Riverside Path Enhancement scheme and Tonbridge Town Lock scheme were, and continue to be, “parked” on List B. Owing to the time that has elapsed since the Tonbridge Riverside Path Enhancement scheme was initially brought forward it is recommended that this scheme be recategorised from List B to List C to recognise the future potential for this proposal to be reinvigorated if developer or other partnership contributions were to come forward. In respect of the Town Lock Scheme, the plan is to bring this forward for consideration for implementation during 2012/13 to match the funding profile that the Environment Agency (EA) has made provision for, as well as using developer contributions. The finances for the scheme are being carefully coordinated with parallel budget setting processes at the EA and these are expected to reach a conclusion in the near future. It is therefore appropriate to retain it on list B for now.
- 1.5.12 Accordingly, it is **RECOMMENDED** that:
- 1) Cabinet approves the position of the existing Capital Plan (List A) as summarised in **[Annex 3]**.
 - 2) Cabinet approves the addition to and deletion from List C those List C schemes shown in **[Annex 4]**.

- 3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year, with those so indicated, selected for fast track evaluation of which four have already been evaluated.
- 4) Cabinet approves the transfer of the following List B schemes to List A:
 - Car Park Enhancement Programme Phase 5
 - Larkfield Leisure Centre Dance / Exercise Studio
 - Tonbridge Swimming Pool Changing Village Floor
 - Racecourse Sportsground Improvements
 - Haysden Country Park Bridge Repairs
 - Open Spaces Site Improvements
 - Tonbridge Cemetery Path Improvements
 - Finance Electronic Document Management
 - Gibson Building West Renewal of Heating System
- 5) The shortfall in funding for fast track schemes yet to be evaluated is met from funds no longer required in respect of existing schemes if Members agree that these schemes be taken forward in 2012/13.
- 6) Cabinet approves the recategorisation of the Tonbridge Riverside Path Enhancement scheme from List B to List C and the Tonbridge Town Lock scheme be retained on List B for the reasons set out at paragraph 1.5.11.
- 7) Cabinet endorse the draft Capital Strategy as presented to the Finance and Property Advisory Board on 4 January and the Overview and Scrutiny Committee on 10 January.
- 8) The Capital Plan process be simplified in future with schemes progressing on the basis of the three criteria specified (health and safety, externally funded or reducing the Council's costs).

1.6 Prudential Code and Treasury Management Strategy Statement and Annual Investment Strategy

- 1.6.1 The Local Government Act 2003 and its subsidiary regulations set out the framework for the system of capital controls which applied from 1 April 2004 whereby local authorities must set their own borrowing limits with regard to affordability, prudence and sustainability. Underpinning this is a requirement to follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 1.6.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice (the Code) is adopted and that a number of prudential indicators are set. In response to the difficulties caused by the banking crisis CIPFA undertook a review of the Code and Cross-Sectoral Guidance Notes and other associated documents.
- 1.6.3 The outcome of that review was the publication in December 2009 of a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes and other associated documents. Council adopted the December 2009 edition of the Code of Practice on Treasury Management on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13.
- 1.6.4 Elsewhere on this agenda there is a report on the Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13. The approval of the Strategy and determination of the prudential indicators has to be made by the body setting the Council Tax, i.e. Full Council, as do amendments to either the Strategy or indicators during the year.
- 1.6.5 The CIPFA Prudential Code for Capital Finance in Local Authorities under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set as follows :
- 1) The capital financing requirement - the extent to which the authority needs to undertake external borrowing to support its capital programme.
 - 2) The operational boundary for external debt.
 - 3) The authorised limit for external debt.
 - 4) The actual external debt.
 - 5) The upper limit for fixed interest rate exposure.
 - 6) The upper limit for variable rate exposure.
 - 7) The upper limit for total principal sums invested for over 364 days.
 - 8) The maturity structure for new fixed rate borrowing during 2012/13.
- 1.6.6 A summary of the indicators appears in the table below:

Treasury Management Prudential Indicators					
Prudential Indicator	2010/11 Actual	2011/12 Revised Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£'000	£'000	£'000	£'000	£'000
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	2,000	2,000	2,000	2,000
The authorised limit for external debt	NIL	5,000	5,000	5,000	5,000
Actual external debt	NIL	NIL	NIL	NIL	NIL
The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%			
The upper limit for variable rate exposure < 1 year at year end	22,320 86.4%	It is anticipated that the net exposure will range between 40% to 100%			
The upper limit for total principal sums invested for over 364 days at year end	NIL	60% of core funds			
The maturity structure for new fixed rate borrowing during 2012/13	Upper Limit		Lower Limit		
Under 12 months	100%		0%		
Over 12 months	NIL		NIL		

- 1.6.7 The capital financing requirement measures the amount of external borrowing that the Council expects to have to undertake in support of its capital programme. A nil figure indicates that no borrowing is required. As this Council is debt free and, for the foreseeable future, does not expect to have to borrow to support its capital programme, this indicator does not change over the period covered.
- 1.6.8 The operational boundary is designed to cover all day to day borrowing requirements. As this Council is debt free, borrowing is only undertaken on a short-term basis to cover cash flow management. Experience suggests that an operational boundary of £2.0m will be sufficient to cover all likely contingencies.
- 1.6.9 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements. A limit of £5.0m is estimated to be sufficient to cover such eventualities.
- 1.6.10 The **other prudential indicators** which we are required to set are shown in the table below:

Prudential Indicators

1.	Ratio of actual and estimated financing costs to the net revenue stream	(Interest payable with respect to borrowing less interest and investment income) ÷ (government grants plus call on local taxpayers) x 100%.					
No freeze							
2010/11 actual	2011/12 estimated	2012/13 estimated	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated
-3.95%	-2.75%	-2.30%	-2.55%	-4.15%	-5.65%	-6.57%	-5.84%
Freeze							
2010/11 actual	2011/12 estimated	2012/13 estimated	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated
-3.95%	-2.75%	-2.35%	-2.60%	-4.19%	-5.69%	-6.56%	-5.82%
2.	Estimates of the incremental impact of capital investment decisions on the Council Tax	The revenue impact of capital schemes added to the ongoing capital plan on the Council Tax Band D Equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] .					
Total		2012/13 estimated £	2013/14 estimated £	2014/15 estimated £	2015/16 estimated £	2016/17 estimated £	2017/18 estimated £
		0.33	(0.86)	0.00	0.00	0.00	0.00
3.	Actual and estimated capital expenditure	This indicator is based on the updated capital plan position and the List B schemes detailed in paragraph 1.5.8. The figures are based on those shown in [Annex 8] .					
2010/11 actual £'000	2011/12 estimated £'000	2012/13 estimated £'000	2013/14 estimated £'000	2014/15 estimated £'000	2015/16 estimated £'000	2016/17 estimated £'000	2017/18 estimated £'000
3,178	2,730	3,282	2,080	1,657	1,855	1,882	1,883

1.6.11 We, therefore, **RECOMMEND** that for the financial year 2012/13 the prudential indicators listed in paragraphs 1.6.6 and 1.6.10 be recommended to Council for adoption.

1.6.12 A local authority has a statutory duty to “determine for the current financial year an amount of minimum revenue provision that it considers to be prudent” in relation to its capital expenditure. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try and match the years over which such assets benefit the local community through their useful life.

1.6.13 The spreading of these costs is through what is termed an annual minimum revenue provision. Other than to account for embedded leases under International Financial Reporting Standards, as the Council is debt free and, for

the foreseeable future, does not expect to borrow to support its capital programme the minimum revenue provision would be nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing.

- 1.6.14 We, therefore, **RECOMMEND** that for the financial year 2012/13, other than to account for embedded leases under International Financial Reporting Standards, our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 Representatives of the Council's Non Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. 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. The deadline given for responses was 20 January 2012. ***Cabinet is advised that no comments have been received.***

1.8 Update of Medium Term Financial Strategy

- 1.8.1 To recap, 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. The Medium Term Financial Strategy affords the opportunity to take a measured and structured approach to budget issues rather than a "knee jerk" reaction. 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, as we have previously stated, it is not a panacea which can insulate the Council from the severe cuts in government funding.
- 1.8.2 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.
- 1.8.3 Members may recall as part of the 2011/12 Budget Setting Process we **moved to a Medium Term Financial Strategy spanning a ten-year period and set out an updated set of Key Objectives underpinning the Strategy as detailed below:**

- 1) To achieve a balanced revenue budget that delivers the Council's priorities by the end of the strategy period.
- 2) To retain a minimum of £2.0m in the General Revenue Reserve by the end of the strategy period.
- 3) 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.
- 4) 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.
- 5) Set a maximum 'annual capital allowance' each year as part of the budget setting process for all new capital schemes (set at £350,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.8.4 Whilst, overall, these 'Key Objectives' retain integrity for 2012/13 and beyond, there are two minor adjustments that need to be made in order to bring the Objective 'up-to-date'.

1.8.5 Firstly in respect of Objective 3, we suggest that the wording be adjusted taking on board the fact that we have moved on a year and also reflect the new challenge of potential council tax referendums. We therefore propose that the Objective now reads:

"Seek to set future increases in council tax having regard to the guidelines issued by the Secretary of State."

1.8.6 In respect of Objective 4, we suggest that words be added to reflect the need to explore opportunities for new or additional income sources. We, therefore, propose that the Objective now reads:

"Over the strategy period, continue to identify efficiency savings and opportunities for new or additional income sources 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".

1.8.7 The budget for 2012/13 is, naturally, the starting point for updating the Medium Term Financial Strategy. Referring to paragraph 1.3.2 Members will note that the Summary Total for the 2011/12 Revised Estimates is £14,557,150; and for the 2012/13 Estimates is £14,032,450 (no freeze) and £13,819,400 (freeze) and are used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]** and **[Annex 11b]** respectively.

- 1.8.8 We have already alluded, within this report and previous reports, to both the offer of a council tax freeze grant and the 'trigger points' for a local referendum.
- 1.8.9 In respect of the latter, 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.
- 1.8.10 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%. As explained in the Foreword, this is complicated by the exclusion from the calculation of certain payments. In our case this is the levies paid to the Upper and Lower Medway Drainage Boards. Having excluded these levies from our calculations, the upper limit for 'referendum' purposes becomes 2.9%. By way of comparison, Members are reminded that 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.
- 1.8.11 In respect of the Coalition Government's continued drive for a council tax freeze, as previously reported to (and debated by) Cabinet, the Government has announced that the funding (representing a 2.5% increase) will involve a **single one-off payment** which will not be built into the baseline. The Council would, therefore, need to **bear the ongoing financial impact** of the 'freeze' of the income base for future years.
- 1.8.12 As Cabinet previously acknowledged, there are clearly 'pros' and 'cons' of levying a small increase in council tax ("option 1") and similarly accepting the freeze grant ("option 2"). Some of the headline statistics for the two 'options' are as follows:

	Option 1 (increase 2.9%)	Option 2 (freeze)
<u>2012/13</u>		
Council Tax Band D	£176.90	£171.91
Increase per annum	£4.99	£0
Increase per week	10 pence	0 pence
Anticipated Council Tax Income	£8,713,507	£8,467,716 excl freeze grant
<u>MTFS</u>		
Total Base budget savings required:	£2.54m	£2.9m
Equivalent to 4 tranches of:	£635,000	£725,000
Reserve balance at end of period	£3.465m	£3.302m

- 1.8.13 As can be seen from the table above, based on the local government finance settlement for 2012/13 and an assumption about the further likely cut in general government grant in 2013/14 and 2014/15, projections would suggest a budget funding gap of **circa £2.54m** (council tax increase 2.9%) and **£2.9m** (council tax freeze). **[Annexes 11a and 11b]** set out the picture for the MTFS.
- 1.8.14 It is worth re-iterating, however, the fact that there is greater volatility for local government to come in the form of localisation of council tax benefit and the retention of part of the business rates.
- 1.8.15 Members are reminded that, from April 2013, a Business Rates Retention scheme is to 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. In the same timescales, we are also required to design, consult on and then implement a local council tax benefit scheme. This too will create uncertainty about funding and budget requirements. For the purposes of medium term financial planning for the time being, we have assumed that we will be no better or worse off under this system than under the current arrangements – **but** there is potentially a big risk here.
- 1.8.16 As Members know, 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 four equal tranches of £635,000 (council tax increase 2.9%) or £725,000 (council tax freeze) to be achieved by 2013/14, 2014/15, 2016/17 and 2017/18.

- 1.8.17 The ability to effectively delay the implementation of the savings targets gives us the opportunity to 'test' and discuss proposals for any potential service reductions that might be necessary with our taxpayers with sufficient time to, where appropriate, adjust them. **Clearly, we will need to continue to look to take advantage of savings opportunities and efficiencies throughout this period as a matter of course.** We hope this will at least give Members some comfort and reassurance concerning the resilience of our Medium Term Financial Strategy and that the financial pressures facing the Council can be addressed in a measured and controlled way.
- 1.8.18 Turning back to the specific budget year 2012/13, an updated Summary of the Revenue Estimates Booklet incorporating the adjustments set out at paragraph 1.3.2 for both a council tax increase of 2.9% and a council tax freeze are attached at **[Annex 12a]** and **[Annex 12b]** respectively. Members should note that the budget for 2012/13 is supported by a take from reserves of £838,650 (council tax increase 2.9%) and £871,200 (council tax freeze).
- 1.8.19 Cabinet is **RECOMMENDED** to:
- 1) Endorse the adjustments to the draft revenue estimates outlined at paragraph 1.3.2.
 - 2) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 2.9% and council tax freeze respectively.
 - 3) Update the Key Objectives of the Medium Term Financial Strategy as set out in paragraphs 1.8.3 to 1.8.6 above.
 - 4) Give guidance to Full Council as to the best way forward for TMBC in updating the MTFS for the next 10 year period, and setting the council tax for 2012/13.

1.9 Collection Fund Adjustments

- 1.9.1 As the billing authority for the area, this Council has responsibility for maintaining the 'collection fund' accounts into which all the council taxes are paid (including those collected on behalf of other precepting authorities).
- 1.9.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to calculate the surplus / deficit on the collection fund and then share this between the major precepting authorities (including ourselves). These are known as collection fund adjustments.

1.9.3 The adjustments relate to balances in the collection fund regarding the collection of council tax. Members may recall that any balance (positive or negative) has to be apportioned between the major precepting authorities and the billing authority. The surplus, which was calculated on 15 January or next working day in accordance with statutory requirements (see **[Annex 13]**) is £Nil.

1.10 Parish Councils

1.10.1 For completeness, Cabinet is reminded that the Borough Council's expenditure is inclusive of the payments to Parish Councils under the Borough Council's Scheme of Financial Arrangements. Details of the Financial Arrangements for 2012/13 are set out at **[Annex 14]** for Members' information.

1.10.2 In addition, the precepts of the Parish Councils are the Special Area expenses of the Borough Council for the purpose of setting the Council Tax. Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.11 Robustness of Estimates / Adequacy of Reserves

1.11.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annexes 16a and 16b]** sets out the Council's projected revenue reserve balances based on a council tax increase of 2.9% and council tax freeze respectively.

1.11.2 Members will be aware of our "defaulted" £1m investment with the Icelandic Bank, Landsbanki. The Landsbanki test case appeal hearings took place in the Supreme Court of Iceland on 14 and 15 September 2011. We are delighted the Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors. This judgement means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. This should mean we will recover almost all (98%) of the £1m we had on deposit with the failed Icelandic Bank, Landsbanki.

1.11.3 The Local Government Act 2003 requires the Chief Financial Officer (in our case the Director of Finance) to report to an authority, when making the statutory calculations required to determine its council tax, on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

1.11.4 What is required is the professional advice of the Director of Finance on these two questions. This responsibility is discharged by way of a certified Statement.

1.11.5 The Director of Finance has stressed that the absolute detail of the Statement varies depending upon whether the Council opts to take the council tax freeze grant, or alternatively increases council tax and thereby provides a greater source of income for future years.

- 1.11.6 That said, the Director of Finance advises that, in both scenarios, she is satisfied as to the Robustness of the Estimates and the Adequacy of Reserves on the understanding that the savings target each scenario would produce is fully honoured and delivered. Clearly, as has been outlined above, the savings challenge increases should the Council opt to accept the council tax freeze grant.
- 1.11.7 A Statement, covering the points above, is accordingly appended at **[Annex 17]**.
- 1.11.8 A schedule of the reserves held by the Council at the 1 April 2011 and proposed utilisation of those reserves to the 31 March 2013 is provided for both a council tax increase of 2.9% and council tax freeze at **[Annex 17]** Table A and B respectively. As this Council's Chief Financial Officer, the Director of Finance has undertaken a review of the earmarked reserves held and is satisfied as to the position depicted in the Tables and will revisit the position as part of the closedown process for 2011/12.
- 1.11.9 Members will note that overall the Director of Finance signifies that, in her professional opinion, the estimates are robust and the level of reserves adequate.
- 1.11.10 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance.

1.12 Calculation of Budget Requirement 2012/13

- 1.12.1 The Localism Act removed the requirement for a calculation to be made of the sum required by the Council for budget purposes (its Budget Requirement).

1.13 Calculation of Borough Council's Tax Requirement

- 1.13.1 The Council is required to calculate:

- its aggregate expenditure which, for this purpose, includes our share of any Collection Fund deficit and the Parish Council precepts; and
- its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).
- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

- 1.13.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.19, the calculation for both a council tax increase of 2.9% and council tax freeze is set out at **[Annex 18a and 18b]** respectively for information. It should be noted that, for this purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

1.14 Legal Implications

- 1.14.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.14.2 The Localism Act introduced a requirement for council tax referendums to be held if an authority increases its relevant basic amount of council tax in excess of principles determined by the Secretary of State and approved by the House of Commons.

1.15 Financial and Value for Money Considerations

- 1.15.1 As set out above.

1.16 Risk Assessment

- 1.16.1 The Local Government Act 2003 requires the Chief Financial Officer, when calculating the 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.
- 1.16.2 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.
- 1.16.3 Under the provisions of the Localism Act, any increase in the relevant basic amount of council tax above the principles, however small, will require a referendum to be held which is a risk in itself.
- 1.16.4 In addition, not identifying and implementing the requisite savings will put at risk the integrity of the Medium Term Financial Strategy.

1.17 Equality Impact Assessment

- 1.17.1 See 'Screening for equality impacts' table at end of report

1.18 Summary of Recommendations

1.18.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the fees and charges set out in **[Annex 2]** as recommended by the Advisory Boards.
- 2) Update the Capital Plan as set out in paragraph 1.5.12 and recommend that Council adopt the Capital Plan accordingly.
- 3) Endorse the draft Capital Strategy as presented to the Finance and Property Advisory Board on 4 January and the Overview and Scrutiny Committee on 10 January and recommend to Council it be adopted.
- 4) Endorse that the Capital Plan process be simplified in future with schemes progressing on the basis of the three criteria specified (health and safety, externally funded or reducing the Council's costs).
- 5) Endorse the prudential indicators listed in paragraph 1.6.6 and 1.6.10 and recommend to Council that they be adopted.
- 6) Endorse that for the financial year 2012/13 the Council's Minimum Revenue Provision as set out at paragraph 1.6.14 is nil and recommend to Council accordingly.
- 7) Endorse the adjustments to the draft revenue estimates as set out at paragraph 1.3.2 and recommend to Council accordingly.
- 8) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 2.9% and council tax freeze respectively.
- 9) Update the Key Objectives of the Medium Term Financial Strategy as set out in paragraphs 1.8.3 to 1.8.6 above.
- 10) Give guidance to Full Council as to the best way forward for TMBC in updating the MTFs for the next 10 year period, and setting the council tax for 2012/13.
- 11) Note and endorse the Statement provided by the Director of Finance as to the Robustness of the Estimates and the Adequacy of the Reserves.

Background papers:

contact: Sharon Shelton

Nil

David Hughes	Sharon Shelton	Mark Worrall	Martin Coffin
Chief Executive	Director of Finance	Leader of the Council	Cabinet Member (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. With regard to new capital plan schemes an equality impact assessment is to be undertaken and reported to Members prior to commencement of the scheme.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	Yes	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. In addition, an equality impact assessment is to be undertaken and reported to Members prior to commencement of a new capital plan scheme.
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.