

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

10 October 2012

Report of the Director of Finance and Cabinet Member for Finance

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY AND INITIAL BUDGETARY GUIDANCE FOR THE 2013/14 BUDGET CYCLE

To consider the Council's finances in the context of the Medium Term Financial Strategy at the start of the 2013/14 budget setting process and to seek endorsement to the Budgetary Guidance issued to staff preparing estimates for 2013/14.

1.1 Introduction

- 1.1.1 The Council's current Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.
- 1.1.2 The Medium Term Financial Strategy sets out the high level objectives the Council wishes to fulfil over the agreed time span. This currently includes achieving a balanced revenue budget that delivers the Council's priorities and to retain a minimum of £2 million in the general revenue reserve by the end of the strategy period.
- 1.1.3 The Medium Term Financial 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.
- 1.1.4 Members are fully aware that the Council continues to face a significant financial challenge brought about by the Coalition Government's budget deficit reduction programme and the current economic climate, but we believe that 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 any 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.2 Medium Term Financial Strategy

1.2.1 The Medium Term Financial Strategy will need to be refreshed, updated and rolled forward as part of the 2013/14 budget setting process. 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.
- 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 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.
- 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.

1.2.2 Members will recall that when setting the budget for 2012/13 in February 2012 projections at that time suggested a 'funding gap' between expenditure and income of **circa £2.54 million**. Based on the above projection it was further suggested that the savings target could be broken down into **four equal tranches of £635,000**. The **first tranche to be identified and implemented ideally by 1 April 2013**, the second tranche by 1 April 2014, the third tranche by 1 April 2016 and the final tranche by 1 April 2017.

1.3 Progress Update

1.3.1 There are a number of factors we are aware of that can contribute towards meeting the first savings tranche of £635,000 including most notably, and at a recent meeting of the JECC an understanding with Unison and staff representatives, that our financial circumstances preclude a pay award this financial year; and also the proposed senior management restructure.

1.3.2 At this early stage in the 2013/14 budget setting process we estimate that about half of the first savings tranche of £635,000 has been identified thus far and expect further savings to come forward as we move through the process that will take us to on or around the target of £635,000. **We anticipate that we will be in a position to report to the Cabinet meeting on 19 November with more detail**

on the savings 'package'. As has been agreed in the past, the first phase of savings will concentrate primarily on the protection of priority services (and jobs) through efficiencies / alternative service delivery methods, or the delivery of 'inward' facing service savings.

- 1.3.3 However, there are several issues such as welfare reform, local council tax support scheme and cuts in government grant funding of more than that suggested in the 2010 Spending Review that have taken the 'funding gap' in the wrong direction. This, in turn, increasing the savings target (the number and or size of the savings tranches) and we are currently trying to assess what the extent of the increase in the savings target might be.
- 1.3.4 It should also be noted that if future cuts in government grant funding beyond 2014/15 are more severe than that currently reflected this would further add to the number and or size of the savings tranches. On the other hand if the New Homes Bonus was to continue or its replacement saw more funding coming our way than estimated this would improve the position. You will see from the above there is so much uncertainty that financial planning over the medium term is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.3.5 Right now there is a sense of "one step forward, two steps back".

1.4 Leisure Facilities Review of Management Options

- 1.4.1 At the recent meeting of the Leisure & Arts Advisory Board on 17 September 2012 Members received a report and presentation on potential management options for the future delivery of the Council's leisure facilities. The options, including in-house management, establishing a new leisure trust, using an existing leisure trust, or working with a commercial leisure management contractor, were discussed and considered against key criteria, including quality, financial savings, governance, control, staffing and investment opportunities. It was emphasised at the meeting that the aim of the review would be to secure the long term sustainability of the Council's leisure facilities, and to maintain the existing high levels of service delivery.
- 1.4.2 Members noted the range of management options already being implemented across other local authorities in Kent, and the potential savings of approximately £500,000 per annum linked to the tax advantages of some of the options. It was agreed at the Board that the Council would continue with a more detailed review of the relevant options with a further report being submitted to the December 2012 meeting of the Leisure & Arts Advisory Board. It was also agreed that this review should focus on a comparison between the available options against the key outcomes of corporate themes, quality of service, asset maintenance, financial savings and long term sustainability, with a recommendation on the way forward.

1.5 Budgetary Guidance for 2013/14 Budget Cycle

- 1.5.1 Clearly, this is an **early projection** of the Medium Term Financial Strategy which will be updated as we move through the 2013/14 budget cycle and as more information becomes available.
- 1.5.2 Consequently, in consultation with Management Team, the Director of Finance has had no choice, but to again impose cash limit on 2013/14 expenditure (at the same level as the current 2012/13 budget) other than where contractual commitments exist or just reason can be given. In addition, the Director of Finance has reiterated the objective to maximise income subject to market conditions, opportunities and comparable charges elsewhere.
- 1.5.3 In terms of contractual commitments many of our major contracts are uplifted annually by RPI. The Council has no choice, but to meet these increases as informed by the official RPI statistics.
- 1.5.4 Depending on how things progress, we cannot rule out the possibility for a reduction in budgets in 2013/14 as opposed to cash standstill.

1.6 Budget Consultation

- 1.6.1 Members will have noted from a report elsewhere on the agenda that KCC has launched its budget consultation for 2013/14.
- 1.6.2 It is not our intention to undertake a consultation exercise in respect of our 2013/14 budget for a number of reasons.
- 1.6.3 Firstly, there is uncertainty surrounding the future financial landscape with the introduction of the local council tax reduction scheme, the business rates retention scheme and the forthcoming Spending Review and the Council's financial strategy may need to be adapted as a result.
- 1.6.4 Secondly, as mentioned in paragraph 1.3.2, the first phase of savings will concentrate primarily on opportunities that safeguard priority services as well as jobs. Therefore, at this stage we do not believe it would be appropriate or timely to consult the public at this time.

1.7 Legal Implications

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

1.8 Financial and Value for Money Considerations

- 1.8.1 As set out above.

1.9 Risk Assessment

- 1.9.1 The Local Government Act 2003 requires the Chief Finance Officer, when calculating the Budget Requirement and Council Tax Requirement, to report on the robustness of estimates included in the budget and the adequacy of the reserves for which the budget provides. Consideration will and is given to the risks associated with any budget setting process where various financial and other assumptions have to be made. To mitigate the risks detailed estimates are formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures and external advice on assumptions obtained where appropriate.
- 1.9.2 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.

1.10 Equality Impact Assessment

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

1.11 Recommendations

- 1.11.1 Cabinet is **RECOMMENDED** to

- 1) note where we are in terms of meeting the first savings tranche of £635,000 and that this will be revisited during the budget cycle as and when more up-to-date information is available;
- 2) note that for the reasons outlined at paragraph 1.3.3 the 'funding gap' has been pulled in the wrong direction and the consequential impact this has on the number and or size of the savings tranches;
- 3) endorse the budgetary guidance issued to Chief Officers preparing and considering estimates and fees and charges for 2013/14 (paragraph 1.5 refers); and
- 4) endorse the view that it is not the right time to consult the public on budget matters for the reasons given within the report.

Background papers:

Nil

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Director of Finance

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Cabinet Member for 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? | No | This report sets out the framework for the 2013/14 budget setting process within the context of the Medium Term Financial Strategy. |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? | No | This report sets out the framework for the 2013/14 budget setting process within the context of the Medium Term Financial Strategy. |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above? | | Not applicable. |

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.