

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

19 November 2012

Report of the Director of Finance and Cabinet Member for Finance

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY

An update on the Council's finances in the context of the Medium Term Financial Strategy following on from the report presented to the Cabinet meeting on 10 October 2012.

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 as a result of the Coalition Government's budget deficit reduction programme which has resulted in a reduction in the financial support it can offer to local government and the current economic climate, 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 any 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.2 Medium Term Financial Strategy

1.2.1 The objectives currently set out in the Medium Term Financial Strategy are:

- 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 Members will be pleased to note that we are well on the way to achieving the target set of £635,000 by 1 April 2013. Other initiatives are also being progressed to contribute towards subsequent savings tranches from 2014/15 onwards.

1.3.2 Factors that have contributed towards meeting the first savings tranche are:

- | | |
|--|----------|
| • No pay award this year | £240,000 |
| • Senior management restructure | £125,000 |
| • Major income streams including the LSBU | £105,000 |
| • RPI increase on contracts less than estimated | £45,000 |
| • Scheme of financial arrangements with parishes | £35,000 |

•	Audit fees less than estimated	£30,000
•	<u>Total</u>	<u>£580,000</u>

1.3.3 Members will note from the above that savings in the order of £50,000 remains to be identified and implemented if we are to meet the first savings target and we expect that further savings will come forward as we move through the 2013/14 budget setting process to take us to on or around the target set of £635,000. For example, Members might be aware of savings proposals in respect of a number of Environmental Health Services contracts to be considered at the meeting of the Local Environmental Management Advisory Board on 27 November. Members may also be aware, for example, of the work being done by the Overview and Scrutiny Committee. 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.

1.3.4 The above of course gives details of issues that have contributed towards meeting the first savings tranche and, in turn, addressing the 'funding gap' between expenditure and income. **But** as mentioned in the October Cabinet report there are, as always, issues that take the 'funding gap' in the wrong direction. These include welfare reform, local council tax support scheme and cuts in government grant funding of more than that projected over the strategy period. This, in turn, increasing the savings target (the number and or size of the savings tranches).

1.4 Leisure Facilities Review of Management Options

1.4.1 At the 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 Local Referendums to Veto Excessive Council Tax Increases

- 1.5.1 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.
- 1.5.2 The level of council tax increase for 2013/14 above which the Secretary of State intends to require the local authority to seek the approval of their electorate via a local referendum was recently set at 2.0%.
- 1.5.3 The assumption reflected within the Medium Term Financial Strategy approved by Council in February 2012 is that increases in council tax from 2013/14 will be 3% year on year across the medium term.
- 1.5.4 However, Members will no doubt be aware of the Government's proposal to freeze council tax in England for a further year in partnership with local authorities. To this end the Government has announced that it will provide funding equivalent to a **1.0%** increase in council tax in 2013/14 and 2014/15, if council tax is not increased in 2013/14.
- 1.5.5 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, albeit temporarily, partly offsets the "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.

1.6 Business Rates Retention

- 1.6.1 Members will be aware of the Government's intention to replace the current formula grant system with the Business Rates Retention scheme from April 2013.
- 1.6.2 For medium term financial planning purposes we have assumed that the business rates baseline attributed to us at the start of the scheme is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority will have to meet a share of that shortfall up to a maximum of circa £200,000.
- 1.6.3 Furthermore, we also continue, for medium term financial planning purposes, to assume the New Homes Bonus in its current form will cease in 2015/16 by which time it is estimated to be in the order of £2.8 million. Thereafter, funding by way of its replacement, whatever that might be, is assumed to be £1.2 million. You will see from just these two issues that there is so much uncertainty that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.

1.7 Early Update of our Medium Term Financial Strategy

1.7.1 So, what is an early update of our Medium Term Financial Strategy telling us? We need to, amongst other things, take into account:

- those factors that have contributed towards addressing the 'funding gap';
- those factors that have taken it in the wrong direction;
- the recent announcement on the level of council tax increase for 2013/14 above which the local authority would be required to seek the approval of their electorate via a local referendum and the government's commitment in partnership with local authorities to freeze council tax in England for a further year';
- the details of the business rate retention scheme; and
- consideration about New Homes Bonus.

1.7.2 Latest projections would suggest that:

- If Members were minded to **increase the council tax by 2%** (the threshold set by the Secretary of State) the updated 'funding gap' (savings target) is circa £2.7 million. As in previous iterations of the Medium Term Financial Strategy we could breakdown the savings target into tranches. For example, in this scenario, the 'new' savings target could be broken down into four tranches (a first tranche of £800,000 followed by two equal tranches of £700,000 and a final tranche of £500,000) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20 respectively. Please note the increase may differ slightly due to the requirement to exclude the payment of any special levies from the calculation.
- If Members were minded **to implement the 'freeze'** and accept the grant the updated 'funding gap' (savings target) is circa £3.0 million. In this scenario, the 'new' savings target could again be broken down into four tranches (a first tranche of £850,000 followed by two equal tranches of £750,000 and a final tranche of £650,000) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20 respectively.
- At a council tax **increase of 3%** (the assumption reflected within the Medium Term Financial Strategy approved by Council in February 2012) the 'funding gap' (savings target) is circa £2.5 million. The savings target could again be broken down into four tranches (first tranche of £800,000 followed by two equal tranches of £700,000 and a final tranche of £300,000) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20 respectively. However, it is assumed that Members would not wish to increase council tax above the threshold that would trigger the requirement

to hold a **referendum** and this example is, therefore, provided for information only.

- 1.7.3 It can be seen from the above that the implications of accepting the grant to freeze council tax as opposed to a council tax increase of 2% (the threshold set by the Secretary of State) adds £300,000 to the overall savings we have to make. For illustrative purposes we attach at **[Annex 1]** a graph illustrating how council tax income would diverge over the strategy period if the Council were to increase council tax by 2%; accept the grant and freeze council tax and for completeness; increase council tax by 3%. For simplicity and to avoid over complication for the purpose of the illustration we have assumed that the council tax base remains static over the strategy period whereas in reality we would expect the tax base to increase.
- 1.7.4 It is not the purpose of this report to seek to determine which route Members ultimately take, but a discussion as to the potential way forward would be helpful to inform the preparation of future budget papers.
- 1.7.5 As mentioned above this is an early update of our Medium Term Financial Strategy which will clearly continue to be updated as we move through the 2013/14 budget cycle and as more information becomes available. Members will note from this early update that the projected funding gap is £2.7 million (increase in council tax 2%) or £3.0 million (council tax freeze) and which explains the comment in the report to Cabinet in October that:

“Right now there is a sense of one step forward, two steps back”.

1.8 Legal Implications

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

1.9 Financial and Value for Money Considerations

- 1.9.1 As set out above.

1.10 Risk Assessment

- 1.10.1 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.

1.10.2 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 and in the current climate regularly reviewed by Management Team.

1.10.3 As mentioned at paragraph 1.6.3 there is so much uncertainty and volatility particularly in some of our major sources income that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.

1.10.4 Any increase above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.11 Equality Impact Assessment

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

1.12 Recommendations

1.12.1 Cabinet is **RECOMMENDED** to:

- 1) note the progress made in meeting the first savings tranche of £635,000; and
- 2) note that an early update of the Medium Term Financial Strategy suggests a 'funding gap' of £2.7 million (council tax increase 2%) and £3.0 million (council tax freeze).

Background papers:

Nil

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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	The report provides an update on the Council's finances in 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	The report provides an update on the Council's finances in 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.