

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

07 February 2006

Supplementary Report of the Director of Finance, Chief Executive, Leader of the Council and Cabinet Member for Resources & Capital Projects

Part 1- Public

1 SETTING THE BUDGET FOR 2006/07

Further to reports to the meeting of the Finance and Property Advisory Board and Policy and Best Value 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 2006/07 and then calculate the level of council tax for 2006/07.

1.1 Medium Term Financial Strategy

- 1.1.1 The Council's Medium Term Financial Strategy covers both capital and revenue budgets over a rolling six-year period, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the six-year period. The Medium Term Financial Strategy affords the opportunity to take a measured and structured approach to budget issues rather than a "knee-jerk" reaction.
- 1.1.2 The Strategy sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. The current Strategy, approved in February 2005, includes achieving a balanced revenue budget by 2009/10 that delivers the Council's corporate aims and priorities and the retention of a minimum of £3.0m in the General Revenue Reserve. The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.
- 1.1.3 The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. 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 The Medium Term Financial Strategy is the Council's high level financial planning tool and will need to be updated and rolled forward one year as part of the

2006/07 budget setting process. It is probably worthwhile reminding ourselves of the objectives currently set out in the Medium Term Financial Strategy.

- To achieve a balanced revenue budget by 2009/10 that delivers the Council's priorities by the end of the strategy period.
- To retain a minimum of £3.0m in the General Revenue Reserve by the end of the strategy period.
- Seek to balance the public's desire (as expressed in the 2003 council tax survey) not to see heavy council tax rises with the wish not to see services reduced.
- Where possible, ensure that expenditure on expanding and improving services is accommodated by omissions and reductions from elsewhere within the Council's budget.
- In respect of capital schemes coming forward for promotion to List A (the Capital Plan) give priority to those schemes that generate income or reduce costs.
- Develop a strategy so as to avoid, as far as possible, the threat of council tax capping by the Secretary of State.

1.2 Revenue Estimates 2006/07

- 1.2.1 The draft Revenue Estimates for 2006/07 were presented to the meetings of the Finance and Property Advisory Board and Policy and Best Value Committee earlier in the cycle. The role of these groups is to assist the Council and Cabinet in the development of its budget within the context of the Medium Term Financial Strategy and the Council's overall Aims and Priorities. Whilst a number of questions were posed by Members at these meetings, the Revenue Estimates as presented were endorsed, and in reconsidering the objective to achieve a balanced revenue budget **agreed** that this should be by the end of the strategy period (2011/12).
- 1.2.2 As reported in the holding report, since preparing the draft Revenue Estimates Booklet, a number of changes have emerged and the Estimates have been updated accordingly. The current 'Summary Total' for the 2005/06 Revised Estimates is £12,459,400 and for the 2006/07 Estimates is £13,377,950.

1.3 Revenue Support Grant 2006/07

1.3.1 This year's finance settlement incorporates changes to the grant distribution system following a review of the formulae, introduces a change to the way councils are funded in that the Formula Spending Share has been scrapped in favour of a 'four block model' and introduced three-year revenue and capital grant settlements (albeit this first round will only extend to two years) in order to give councils firm forward financial allocations. Councils will have funds allocated on:

- A relative needs allocation
- Ability to raise council tax
- A population-based allocation
- An allocation to ensure minimum increase in grant

1.3.2 The final settlement for 2006/07 was announced on 31 January and is due to be debated in the House on 6 February. This Council has received a final Grant Settlement of £6,252,734 (£20,034 **less** than the provisional settlement announced in December) plus adjustments of £2,337 and £2,370 to the grant settlements for 2004/05 and 2005/06 respectively.

1.3.3 The headline increase in grant for 2006/07 is shown as 3.0% which happens to be the floor (minimum increase) for shire districts. However, it is not quite that simple in that our 2005/06 grant has been adjusted to produce the 3.0% headline figure or in cash terms £182,000.

Table 1 - Revenue Support Grant

| | 2006/07 £ | 2005/06 'Adjusted' £ | Variance £ |
|-----------------------------|--------------|----------------------------|---------------|
| Revenue Support Grant | 1,011,705 | 2,904,656# | -1,892,951 |
| National Non-Domestic Rates | 5,241,029 | 3,165,960 | 2,075,069 |
| Total | 6,252,734 | 6,070,616 | +182,118 |

Note: For completeness, the actual grant received was £2,527,424.

1.3.4 The adjustment of £377,000 (which was £397,000 in the provisional figures) is primarily to reflect the additional costs of moving from a half-fare to a free fare concessionary travel scheme. The consultants, MCL, who run the county-wide travel scheme on behalf of all the councils in Kent calculate this Council's share to be in the order of £311,000 (as included in Corporate Services Estimates page CS 21).

- 1.3.5 As was reported to the Finance & Property Advisory Board (F&PAB) on 4 January, in the wider context this is a better outcome than that we had earlier come to expect - Members are reminded of the earlier forecasts of increases of less than 1%. That said, many authorities have, of course, done better. Members may recall from the report to F&PAB that the “unexpected” improvement in the overall local government funding package was largely attributable to the extra funding provided above previous plans. Of course, we must not forget that in return for this additional funding the **ODPM expect to see average council tax increases in each of the next two years of less than 5%.**
- 1.3.6 However, as reported to the Finance and Property Advisory Board meeting in January, the increase of 3.0% or £182,000 is to a large extent negated by changes to housing benefit and council tax benefit administration subsidy. These changes will see our subsidy fall by an estimated £24,000 in 2006/07 (transitional arrangements) and by £170,000 in 2008/09 when for us the transitional arrangements cease. This is clearly not an insignificant amount, and has had to be factored into our MTFS.
- 1.3.7 A comparison of our grant settlement for 2006/07 with those of other Kent District Councils is provided at **[Annex 1]**.
- 1.3.8 Clearly, it is disappointing that our final grant settlement for 2006/07 is some £20,000 less than the provisional settlement announced in December. **However, what is even more disappointing is that the headline allocation for 2007/08 is some £97,000 less than the provisional settlement announced in December.** We are currently endeavouring to get answers from the ODPM as to **why there has been such a significant shift.** At the time of writing this report, we have been unable to establish the reasons behind the shift, but will update Members at the meeting if we have been able to gather any intelligence or explanations.
- 1.3.9 This not insignificant reduction in government grant has moved us from a position where the MTFS objectives would be achieved with a margin for error to one where the objective of eliminating dependence upon the use of reserves can only now be barely achieved in 2011/12. Indeed, it is only because we have been able to update projections for future years in respect of a number of key sources of income based upon the latest data available, that the position set out at Table 5 has been achieved. As we move through the period covered by the MTFS it will clearly be very important to monitor closely actual performance against the assumptions built into the strategy and initiate corrective action should this prove necessary.

1.4 Capital Plan

- 1.4.1 As reported in the holding report, the Capital Plan Review process started at the Finance and Property Advisory Board (F&PAB) on 4 January 2006, with recommendations feeding into Cabinet on 18 January 2006. Matters raised at these meetings are detailed in the holding report.

1.4.2 Policy and Best Value Committee on 24 January (P&BV) considered the Capital Plan position following Cabinet on 18 January.

1.4.3 P&BV recommended that:

- 1) The position of the existing Capital Plan (List A), as reported to F&PAB, be adopted subject to 2 amendments as recommended by F&PAB:

The deletion of a provision of £10,000 in 2011/12 for Countryside Partnership Initiatives in Areas of Outstanding Natural Beauty; and

The change in the provision in 2005/06 for Gibson East Building Comfort Cooling from £198,000 to £43,000.

A summary of the Capital Plan (List A) is attached at **[Annex 2]**.

- 2) The new schemes listed in **[Annex 3]** be added to List C.
- 3) The existing List C schemes, listed in **[Annex 4]**, be deleted from List C.
- 4) The new List C scheme, "Car parking: New Hythe Lane, Larkfield – provision of residents' off-street car parking", be added to the List C schemes recommended by F&PAB for evaluation.
- 5) The List C schemes shown in **[Annex 5]** be selected for evaluation over 2006, with those schemes so indicated, being selected for fast-track evaluation.
- 6) The evaluated List C schemes shown in **[Annex 6]** be transferred from List C to List B and further transferred to List A, subject to the overall financial situation.
- 7) The following schemes be retained on List C for further evaluation:
 - Tonbridge Swimming Pool: Wet change area.
 - Payroll software - electronic data capture.
 - Tonbridge Castle: East Curtain Wall.
- 8) A sum of £13,200 is included in the revised revenue estimates for 2005/06 to cover the employment of consultants to provide the necessary specialist skills to enable the evaluation of Tonbridge Castle East Curtain Wall to be completed.

1.4.4 A summary of the revenue implications of the List B schemes is included in **[Annex 6]**. The revenue implications shown reflect the estimated impact in the year of implementation and the estimated impact in subsequent years. The precise impact in 2006/07 and later years will depend on the profiling of the capital expenditure and the date from which the project goes operational. If all List B

schemes are selected for List A the estimate for the revenue implications of the schemes for 2006/07, based on an estimated profile of expenditure, is included in the Medium Term Financial Strategy at £29,050.

- 1.4.5 A number of schemes have been recommended for “**fast-track**” **evaluation** with a view to the schemes being implemented during 2006/07. Given the volume and size of the fast-track schemes, **Members of the Cabinet may consider it prudent to create a ‘provision’ of, say, £750,000 within the Corporate Services element of List A for 2006/07 to allow these schemes to proceed, if appropriate.** On the assumption that Members support this stance, an estimate of the revenue implications of the fast-track schemes for 2006/07, based on an estimated profile of expenditure, is included in the Medium Term Financial Strategy at £15,000.
- 1.4.6 An updated summary of the Capital Plan is attached at **[Annex 7]**. This summary includes all List B schemes and the provision for fast-track schemes proposed in paragraph 1.4.5 above. The column for expenditure to 31 March 2005 shows a reduction due to the deletion of schemes for which no budget exists after 31 March 2005. The capital grants budgets in Leisure Services and Corporate Services have been reprofiled to reflect the awards for 2006/07 following Finance and Property Advisory Board; the overall totals for these budgets remain the same.
- 1.4.7 In previous years, the Government Office for the South East (GOSE) has announced details of housing capital allocations. The Office of the Deputy Prime Minister has announced that: “In 2006/07 and 2007/08, Central Government support for local authority housing capital investment will not be provided through the RSG system. Support for work on authorities’ own stock will continue to be made through HRAs, while support for work on private housing and other activity will be in the form of capital grant to be announced in the New Year.” So far no announcement has been received.
- 1.4.8 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]**.
- 1.4.9 Despite the “hiccup” with the final grant settlement as set out in paragraph 1.3.9 above, we are very pleased to say that, as well as the provision for the fast-track schemes set out in paragraph 1.4.5 above, **we are able to recommend that all List B schemes be transferred to List A.** It should be noted that although one scheme is planned for implementation in 2007/08, the others are planned for implementation in 2006/07.
- 1.4.10 When we reported last year on the transfer of List B schemes to List A, a number of schemes were recommended for retention on List B pending further developments. These schemes and a brief commentary are listed below:

- 1) Tonbridge Riverside Path Enhancement. The Environment Agency has appointed a landscape architect to prepare some costed projects. A provision may be required in due course to provide partnership funding in conjunction with the Environment Agency, developers or other agencies or funding bodies. This scheme should remain parked on List B.
- 2) Tonbridge Racecourse Sports Ground - Ball Court. This scheme is awaiting developer contributions and should remain on List B.
- 3) Leisure Facilities: Upgrade of CCTV - Phase 2. Phase 1 of this project has been implemented and the need or otherwise for a further phase of CCTV work will be assessed in the light of the results from Phase 1. Phase 2 of this scheme should be held on List B pending further evaluation in due course.

1.4.11 Accordingly, it is **RECOMMENDED** that:

- 1) Council is requested to approve the position of the existing Capital Plan (List A) as presented to Finance and Property Advisory Board on 4 January 2006, together with the two amendments shown in paragraph 1.4.3 (1).
- 2) Cabinet approves the new List C schemes shown in **[Annex 3]**.
- 3) Cabinet approves the deletion from List C of the schemes shown in **[Annex 4]**.
- 4) Cabinet approves the selection for evaluation of those List C schemes listed in **[Annex 5]** with those schemes so indicated, being selected for fast-track evaluation.
- 5) Cabinet approves a corporate capital plan provision of £750,000 in 2006/07 to cover the implementation of those schemes selected for fast-track evaluation.
- 6) Cabinet approves the transfer of the following List B schemes to List A:

Car Parking – Eccles, Residents Car Parking (Provision £150,000 in 2007/08)

Car Parking: Parking Action Plan – Phase 5 (Provision £20,000 in 2006/07)

Car Parking: Parking Action Plan - Hadlow (Provision £20,000 in 2006/07)

Car Parking: Parking Action Plan – Borough Green (Provision £35,000 in 2006/07)

Car Parking: Car Park Enhancement Programme (Provision £69,000 in 2006/07)

Traffic management: Local Transport Plan Partnership Programme 2006/07 (Provision £50,000 in 2006/07)

Traffic Management: New Hythe Lane to Chaucer Way, Larkfield -

Footpath/Cycle Track Improvements (Provision £40,000 in 2006/07)
 Snodland Partnership – Contribution for 2006/07 (Provision £25,000 in 2006/07)
 Medway Gap Countryside Management Initiative - 2006/07 to 2008/09 (Provision £75,000 over the three years)
 Green waste scheme Phases 5 & 6 (Provision £220,000 in 2006/07)
 Larkfield Leisure Centre (LLC): Car Park Improvements (Provision £100,000 in 2006/07)
 Larkfield Leisure Centre (LLC): Health & Fitness including Improvements to Changing Accommodation (Provision £435,000 in 2006/07)
 Tonbridge Swimming Pool (TSP): Lifestyles Health Suite Upgrade (Provision £50,000 in 2006/07)
 Poult Wood Golf Centre (PWGC): Car Park Improvements (Provision £12,000 in 2006/07)
 Poult Wood Golf Centre (PWGC): Practice Ground Improvements (Provision £70,000 in 2006/07)
 Tonbridge Farm Sports ground – Improvements for Young People (Provision £205,000 in 2006/07)
 Open Spaces: Haysden Country Park – Alternative Sewage System (Provision £43,000 in 2006/07).

- 7) Cabinet approves the retention on List B of the following ‘parked’ schemes:

Tonbridge Riverside Path Enhancement
 Tonbridge Racecourse Sports Ground - Ball Court
 Leisure Facilities: Upgrade of CCTV - Phase 2

- 8) Cabinet approves the inclusion in the revised revenue estimates for 2005/06, a sum of £13,200 to cover the engagement of consultants to enable the evaluation of the Tonbridge Castle East Curtain Wall project to be completed.

1.5 Consultation with Non-Domestic Ratepayers

- 1.5.1 Representatives of the Council’s Non Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. The deadline given for responses was 20 January 2006. Cabinet is advised that no comments have been received.

1.6 Prudential Code and Treasury Management & Investment Strategies / Borrowing Limits

- 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. The prescriptive former approach to borrowing, based on the award of credit approvals, has been replaced by a prudential system 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 Code of Practice on Treasury Management is adopted and that a number of prudential indicators are set. Council adopted the latest edition of the Code of Practice on Treasury Management on 30 September 2003.
- 1.6.3 Elsewhere in these papers there is a report on the Treasury Management Strategy Statement and Annual Investment Strategy. The approval of the Strategies 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 Strategies or indicators during the year.
- 1.6.4 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 upper limit for fixed interest rate debt
 - 5) The upper limit for variable rate debt
 - 6) The upper limit for total principal, and
 - 7) The maturity structure for new fixed rate borrowing during 2006/07.

1.6.5 A summary of the indicators appears in the table below.

| Prudential Indicator | 2005/06 £'000 | 2006/07 £'000 | 2007/08 £'000 | 2008/09 £'000 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| The capital financing requirement | 0.0 | 0.0 | 0.0 | 0.0 |
| The operational boundary for external debt | 2,000 | 2,000 | 2,000 | 2,000 |
| The authorised limit for external debt | 5,000 | 5,000 | 5,000 | 5,000 |
| The upper limit for fixed interest rate debt | 5,000 | 5,000 | 5,000 | 5,000 |
| The upper limit for variable rate debt | 2,000 | 2,000 | 2,000 | 2,000 |
| The upper limit for total principal | 5,000 | 5,000 | 5,000 | 5,000 |
| The maturity structure for new fixed rate borrowing during 2006/07 | | Upper Limit | | Lower Limit |
| | Under 12 months | 100% | | 100% |
| | Over 12 months | NIL | | NIL |

- 1.6.6 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.
- 1.6.7 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.
- 1.6.8 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.

1.6.9 The **other prudential indicators** which we are required to set are shown in the table below:

Table 3 - 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%. | | | | | |
| 2004/05 actual | 2005/06 estimated | 2006/07 estimated | 2007/08 estimated | 2008/09 estimated | 2009/10 estimated | 2010/11 estimated | 2011/12 estimated |
| -15.99% | -14.76% | -11.76% | -10.96% | -10.23% | -9.46% | -8.79% | -8.23% |
| 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 example below shows the estimated effect on the Borough Council's Band D equivalent of the addition of all List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] . | | | | | |
| Total | | 2006/07 estimated £ | 2007/08 estimated £ | 2008/09 estimated £ | 2009/10 estimated £ | 2010/11 estimated £ | 2011/12 estimated £ |
| | | 1.03 | 0.80 | 0.11 | 0.02 | | |
| 3. | Actual and estimated capital expenditure | This indicator is based on the existing capital plan position recommended by Policy and Best Value Committee on 24 January 2006 and, in addition, includes all list B schemes and the provision for fast-track schemes. The figures are based on those shown in [Annex 7] adjusted for accruals. | | | | | |
| 2004/05 actual £'000 | 2005/06 estimated £'000 | 2006/07 estimated £'000 | 2007/08 estimated £'000 | 2008/09 estimated £'000 | 2009/10 estimated £'000 | 2010/11 estimated £'000 | 2011/12 estimated £'000 |
| 3,612 | 6,793 | 4,491 | 2,052 | 1,823 | 1,830 | 1,954 | 1,888 |

1.6.10 We, therefore, **RECOMMEND** that for the financial year 2006/07 the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 be recommended to Council for adoption.

1.7 Update of Medium Term Financial Strategy

1.7.1 At paragraph 1.1.4 we set out the objectives of the current Medium Term Financial Strategy (MTFS). In reconsidering the objective to achieve a balanced revenue budget by 2009/10 both the Finance and Property Advisory Board and Policy and Best Value Committee **agreed** that this should be amended to the end of the strategy period (2011/12).

- 1.7.2 The budget for 2006/07 is, naturally, the starting point for updating the MTFs. Referring to the holding report, Members will note the current 2006/07 estimate summary total is £13,377,950. This is £11,800 less than the summary total presented in the Draft Estimates Booklet and reflects additional information that has come to light since preparing the booklet. The following further adjustments are proposed:

Table 4 - Draft Revenue Estimates Amendments

| | 2006/07 Estimate £ |
|--|--------------------------|
| Holding Report Summary Total | 13,377,950 |
| Add: | |
| Additional Capital Plan List B items to be transferred to List A (paragraph 1.4.4) | 29,050 |
| Provision for Fast-track Capital Plan items (paragraph 1.4.5) | 15,000 |
| Investment Income [1] | (50,850) |
| Add: | |
| Establishment proposals referred to General Purposes Committee 6 February 2006 | |
| Client Services Manager | 5,400 |
| Environmental Enforcement Officer | 27,050 |
| Media and Communications Officer | 10,800 |
| Catering Facilities | (30,800) |
| Customer Services / Best Value Review [2] | (1,800) |
| Redundancy / Capitalised Pension | |
| Contributions [3] | 94,750 |
| Amended Summary Total | <u>13,476,550</u> |

[1] On the advice of the Council's Fund Managers we have revised the rate of return on our investments from 4.75% to 4.9%. They are of the view that this is not unreasonable and is supported by HM Treasury Survey of Economic Forecasts to 2009 referred to in Appendix 2 of the Treasury Management Strategy Statement and Annual Investment Strategy Report elsewhere on this agenda.

[2] Implementation occurs during 2006/07. Full year saving is estimated at £43,780.

[3] One-off costs.

- 1.7.3 This amended summary total is used in the budget projections shown in table 5. It is worth at this stage reminding ourselves of the Government's stance regarding **Capping**. As Members will recall, one of the objectives contained within the Medium Term Financial Strategy is to develop a strategy so as to avoid, as far as possible, the threat of council tax capping by the Secretary of State.
- 1.7.4 The Government has declared its intention to identify local authorities that bring in council tax increases greater than 'low single figures' for capping purposes and that it expects to see a national average increase in council tax of less than 5%. Whilst a 'Cap' has not formally been declared, as we mentioned in paragraph 1.3.5, **the ODPM had made it clear that it expects to see average council tax increases in each of the next two years of less than 5%.**
- 1.7.5 The MTFS adopted last year assumed council tax increases of 4.95% for each and every year of the strategy, and it has been our intention throughout this process, where at all possible, to reaffirm this level of increase.
- 1.7.6 Bringing all the strands of this report together, Members will note from the table below that the objectives of the Medium Term Financial Strategy (see paragraph 1.7.1) **can be met.**

Table 5 - Revenue Budget Plan and Projected Council Tax Levels 2006/07 - 2011/12

| | Estimate 2006/07 | Project'n 2007/08 | Project'n 2008/09 | Project'n 2009/10 | Project'n 2010/11 | Project'n 2011/12 |
|-------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| EXPENDITURE | | | | | | |
| Employees | 11,142 | 11,326 | 11,558 | 11,951 | 12,250 | 12,556 |
| Transfer Payments | 21,535 | 22,073 | 22,625 | 23,191 | 23,771 | 24,365 |
| Other Expenditure | 11,733 | 11,518 | 11,698 | 12,108 | 12,393 | 12,726 |
| Capital Charges | 3,602 | 3,692 | 3,784 | 3,879 | 3,976 | 4,075 |
| Total Expenditure | 48,012 | 48,609 | 49,665 | 51,129 | 52,390 | 53,722 |
| INCOME | | | | | | |
| Fees & Charges | (6,394) | (6,568) | (6,929) | (7,093) | (7,247) | (7,456) |
| Specific Grants & Misc | (23,074) | (23,299) | (23,803) | (24,397) | (25,007) | (25,633) |
| Investment Income | (1,588) | (1,504) | (1,430) | (1,376) | (1,323) | (1,276) |
| Total Income | (31,056) | (31,371) | (32,162) | (32,866) | (33,577) | (34,365) |
| Appropriations | (3,480) | (3,312) | (3,262) | (3,402) | (3,391) | (3,441) |
| NET BUDGETED SPEND | 13,476 | 13,926 | 14,241 | 14,861 | 15,422 | 15,916 |
| FUNDING | | | | | | |
| Revenue Reserves | 517 | 523 | 256 | 264 | 182 | 0 |
| Government Grant | 6,257 | 6,330 | 6,488 | 6,650 | 6,817 | 6,987 |
| Council Tax | 6,672 | 7,073 | 7,497 | 7,947 | 8,423 | 8,929 |
| Collection Fund Adjustment | 30 | 0 | 0 | 0 | 0 | 0 |
| Total Funding | 13,476 | 13,926 | 14,241 | 14,861 | 15,422 | 15,916 |
| Band D Council Tax | £144.82 | £151.99 | £159.51 | £167.41 | £175.70 | £184.40 |
| Increase on Last Year | 4.95% | 4.95% | 4.95% | 4.95% | 4.95% | 4.95% |
| Reserves Balance C/Fwd | 4,957 | 4,434 | 4,178 | 3,914 | 3,732 | 3,732 |

1.7.7 Turning back to the specific budget year 2006/07, an updated summary of the estimates booklet is attached at **[Annex 11]**. The final column incorporates all the adjustments set out in paragraph 1.7.2 above. Members should note that the budget for 2006/07 is supported by a take from reserves of £517,350.

1.7.8 Cabinet is **RECOMMENDED** to:

- 1) Endorse the adjustments to the draft estimates outlined in paragraph 1.7.2.
- 2) Update the Medium Term Financial Strategy as set out at paragraph 1.7.6 above.

1.8 Collection Fund Adjustments

- 1.8.1 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).
- 1.8.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to calculate the surpluses / deficits on the collection fund and then share them between the major precepting authorities (including ourselves). These are known as collection fund adjustments.
- 1.8.3 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 in accordance with statutory requirements (see **[Annex 12]**), is £214,170. The Borough Council's share of the surplus is **£29,665**. This surplus must be taken into account when setting the council tax for 2006/07.

1.9 Parish Councils

- 1.9.1 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 2006/07 are set out at **[Annex 13]** for Members' information.
- 1.9.2 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 14]**.

1.10 Robustness of Estimates / Adequacy of Reserves

- 1.10.1 The Council is required to have regard to the level of its balances and reserves before determining its budget requirement. **[Annex 15]** sets out the Council's projected revenue reserve balances assuming Members endorse the Medium Term Financial Strategy set out earlier in this report.
- 1.10.2 The Local Government Act 2003 requires the Chief Financial Officer 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.

- 1.10.3 What is required is the professional advice of the Chief Financial Officer on these two questions. This responsibility is discharged by way of a certified Statement. A Statement is accordingly appended at **[Annex 16]**.
- 1.10.4 A schedule of the reserves held by the Council at the 1 April 2005 and proposed utilisation of those reserves to the 31 March 2007 is provided in Table A to **[Annex 16]**. 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 Table A and will revisit the position as part of the closedown process for 2005/06.
- 1.10.5 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.
- 1.10.6 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance.

1.11 Calculation of Budget Requirement 2006/07

- 1.11.1 Section 32 of the Local Government Finance Act 1992 requires a calculation to be made of the sum required by the Council for budget purposes. Assuming Cabinet's concurrence with the recommendation set out in paragraph 1.7.8, the resulting calculation is set out at **[Annex 17]**. The Council will be required to pass a resolution agreeing the calculation in due course and it should be noted that, for this purpose, the Borough Council's budget would include the Parish Council precepts.

1.12 Calculation of Borough Council's Tax Requirement

- 1.12.1 Having made the above calculation inclusive of Parish Council precepts, the Borough Council must make the adjustments required to determine its call on the Collection Fund. The Aggregate External Finance (see paragraph 1.3.2) and the adjustment in respect of the Collection Fund (see paragraph 1.8.3) reduce the gross amount calculated above. These are set out below:

| | |
|-----------------------------|-----------|
| | £ |
| Aggregate External Finance | 6,252,734 |
| Collection Fund Adjustments | 29,665 |
| | ----- |
| Total | 6,282,399 |

- 1.12.2 **[Annex 18]** sets out the calculation for Members' information.

1.13 Legal Implications

1.13.1 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 Financial and Value for Money Considerations

1.14.1 As set out above.

1.15 Risk Assessment

1.15.1 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.

1.16 Summary of Recommendations

1.16.1 Cabinet is **RECOMMENDED** to:

- 1) Update the Capital Plan as set out in paragraph 1.4.11 and recommend that Council adopt the Capital Plan accordingly;
- 2) Endorse the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 and recommend to Council that they be adopted;
- 3) Endorse the adjustments to the draft estimates outlined in paragraph 1.7.2;
- 4) Update the Medium Term Financial Strategy as set out at paragraph 1.7.6; and
- 5) 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:

Letter and supporting papers from ODPM re Final Settlement dated 31 January 2006 (contained on ODPM website)

www.local.odpm.gov.uk/finance/0607/grant.htm

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Director of Finance

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Chief Executive

Mark Worrall
Leader

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2 SETTING THE COUNCIL TAX FOR 2006/07

This report takes Cabinet through the process of setting the level of Council Tax for the financial year 2006/07. Cabinet is asked to RECOMMEND the draft resolution, as it relates to the Borough Council's level of Council Tax, to the meeting of the full Council on 20 February 2006.

2.1 Introduction

- 2.1.1 The legislative framework for the setting of Council Tax is Chapter III of the Local Government Finance Act 1992. Section 30 requires that for each financial year and for each category of dwelling in its area, a billing authority shall set an amount of Council Tax.
- 2.1.2 The amount set will be the aggregate of the amount set by the billing authority under Sections 32 and 36 of the Act and the amounts set by major precepting authorities under Sections 43 to 47 of the Act.

2.2 Amounts of Council Tax to be set by the Billing Authority

- 2.2.1 Having determined the billing authority's tax requirement, at paragraph 1.12.2 this sum is initially divided by the tax base to determine the overall level of tax, inclusive of Parish Precepts for the billing authority. The tax base for 2006/07 is set out at **[Annex 19]** for information.
- 2.2.2 The resultant figure represents an average charge within the Borough for both Borough and Parish Council requirements. As part of the statutory process, this average is recorded on the Council's council tax resolution, which we refer to later.
- 2.2.3 As Cabinet is aware, however, the average charge does not apply to any of the areas within the Borough other than by coincidence. In order to calculate the levels of tax for each of the areas within the Borough, it is necessary to determine the basic level of Council Tax that will apply to the whole of the Borough, and then calculate the additional charges relating to particular areas (i.e. parishes). This process determines the tax for Band D properties in each of those areas.
- 2.2.4 The tax for the full range of Band A to H properties is then established by using the ratios for each of the Bands as they relate to Band D. The relevant statutory ratios are as follows:

Table 1 - Band Ratio Relative to Band D

| Band | Ratio to Band D |
|------|-----------------|
| A | 6/9 |
| B | 7/9 |
| C | 8/9 |
| D | 9/9 |
| E | 11/9 |
| F | 13/9 |
| G | 15/9 |
| H | 18/9 |

2.2.5 The level of tax set by the major precepting authorities, Kent County Council, Kent Police Authority and the Kent & Medway Towns Fire Authority, is then added to establish the overall tax for each band in each part of the area.

2.3 Kent County Council / Kent Police Authority / Kent & Medway Towns Fire Authority Precept

2.3.1 At the time of writing, none of the major precepting authorities has met to determine their respective precepts for 2006/07.

2.3.2 The Kent Police Authority's precept and level of Council Tax is due to be agreed on 15 February.

2.3.3 The Kent & Medway Towns Fire Authority's precept and level of Council Tax is due to be agreed on 17 February.

2.3.4 Kent County Council's Cabinet meeting will take place on 6 February, at which a recommendation concerning its precept is expected to be made. The County Council's full council meeting to confirm the precept is to be held on 20 February (on the same day as our own).

2.4 Draft Resolution

2.4.1 Attached at **[Annex 20]** is a draft resolution which seeks to identify for Cabinet the figures which have been calculated and the processes which have to be undertaken to arrive at the levels of Council Tax applicable to each part of the Borough. The parts in bold type seek to explain each calculation.

2.4.2 Given that the County Council, the Police Authority and the Kent & Medway Towns Fire Authority will not have met to determine their precepts, it will not be possible to circulate to Cabinet a draft resolution incorporating the Council Tax levels for all major precepting authorities.

2.4.3 The draft resolution, therefore, only incorporates the Borough Council's budget and Parish Council precept information. Members will be advised of the levels of Council Tax to be set by Kent County Council, Kent Police Authority and the Kent & Medway Towns Fire Authority at full Council on 20 February 2006.

2.5 Legal Implications

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

2.6 Financial and Value for Money Considerations

2.6.1 As set out above.

2.7 Risk Assessment

2.7.1 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.

2.8 Recommendations

2.8.1 Cabinet is **RECOMMENDED** to refer the draft resolution, as it relates to the Borough Council's level of Council Tax, to full Council at its meeting on 20 February 2006 for approval.

Background papers:

Nil

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Neil Lawley
Phil Hobbs
Michael Withey

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Director of Finance

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Chief Executive

Mark Worrall
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