

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

05 February 2008

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

#### Part 1- Public

#### Matters for Recommendation to Council

#### **1 SETTING THE BUDGET FOR 2008/09**

**Further to reports to the meeting of the Finance and Property Advisory Board and Policy Overview 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 2008/09.**

#### **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. This currently includes achieving a balanced revenue budget by 2011/12 that delivers the Council's corporate aims and priorities and to retain 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

2008/09 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 2011/12 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 Government Grant 2008/09, 2009/10 and 2010/11**

- 1.2.1 The final settlement for the three-year period 2008/09 to 2010/11 was announced on 24 January and is due to be debated in the House on 4 February. The Council has received a final Grant Settlement of £6,451,870, £6,484,129 and £6,522,259 in each of the three years respectively, or increases of 1% (on our adjusted grant for 2007/08) 0.5% and 0.6%. The 1% increase falls to only 0.4% when we take into account funding previously paid by way of specific grant which has now been subsumed within the settlement.
- 1.2.2 These figures are the same as the provisional settlement announced in December, all but for a reduction of £93 in 2010/11 with the Secretary of State deciding not to accept a request to amend the tax base data submitted during the provisional settlement consultation. As mentioned in the holding report a letter of representation about the settlement was sent to the Department for Communities and Local Government, and a response is still awaited.
- 1.2.3 A comparison of our grant settlement for 2008/09, 2009/10 and 2010/11 with those of other Kent District Councils is provided at **[Annex 1]**.

### 1.3 Revenue Estimates 2008/09

1.3.1 The draft Revenue Estimates for 2008/09 were presented to the meeting of the Finance and Property Advisory Board and Policy Overview Committee earlier in the cycle. The role of the Board and of the Committee is to assist both the Council and the 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. In reconsidering the objective to achieve a balanced budget by 2011/12, both the Board and the Committee **recommended** that the Cabinet reconsider the broad objectives of the Medium Term Financial Strategy in terms of achieving a balanced budget at an appropriate time depending on the Council's financial position.

1.3.2 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 2007/08 Revised Estimates is £13,977,000 and for the 2008/09 Estimates is £14,602,300.

### 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 on 2 January 2008 followed by the Policy Overview Committee on 22 January 2008.

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

1.4.3 After debates, the Advisory Board and the Committee endorsed the following recommendations as detailed in the papers:

- 1) The position of the existing Capital Plan (List A). 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 List C schemes shown in **[Annex 5]**, be selected for evaluation over 2008, with those schemes so indicated, being selected for fast-track evaluation.
- 5) The evaluated List C schemes are progressed in accordance with the recommendations shown in **[Annex 6]**.

- 1.4.4 A summary of the revenue implications of the schemes recommended for List B 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 figures are illustrative; the precise impact in 2008/09 and later years will depend on the profiling of the capital expenditure and the date from which the project goes operational. **[Annex 6]** assumes a half year impact in the year of implementation and a full year impact in subsequent years.
- 1.4.5 **If all List B schemes were to be selected** for inclusion on List A, the estimated revenue implications of the schemes, based on the assumed profile of expenditure, is a net saving of £18,650 in 2008/09 rising to £40,850 in subsequent years. On the basis that this ‘package’, in total, would have a beneficial effect on the base budget, it is feasible that these schemes could be accommodated in the capital plan (List A) from 2008/09.
- 1.4.6 Members should note, however, that the list at **[Annex 6]** includes additional capital provision for the Snodland Partnership. Elsewhere on this agenda is a report from the **Scrutiny Committee** recommending a slightly different approach in respect of the Council’s financial contribution to the Partnership for a two year trial period. If the recommendation from the Scrutiny Committee is agreed, we suggest that the capital plan provision of £25,000 be deleted from this List as alternative funding arrangements will be made. **The Director of Finance has compiled the remainder of this report on the basis that an alternative approach to the funding of the Snodland Partnership will be agreed** and therefore will be dealt with outside this report.
- 1.4.7 In order to provide the flexible funding for the Snodland Partnership, recommended by Scrutiny Committee (see report elsewhere on this agenda), unallocated budget for the Snodland Partnership, totalling £34,000, has been removed from the capital plan. This reduces the total capital plan provision for the Snodland Partnership from £410,000 to £376,000. However, this reduction has been matched by a transfer of £34,000 from the Revenue Reserve for Capital Schemes to an earmarked revenue reserve for the Snodland Partnership, which can be used for revenue or capital projects.
- 1.4.8 In respect of the ‘new’ additions to List C, members will be aware that a number of schemes have been recommended for **“fast-track” evaluation** with a view to the schemes being implemented during 2008/09. Members are reminded that schemes are only recommended for fast-track evaluation if
- there is an urgent health and safety issue;
  - there is an issue about the protection of the Council’s assets;
  - there is a need to comply with legislation or new demands;
  - there is a ‘time limited’ opportunity to secure a partnership or external funding for a project; OR

- to avoid delay in introducing an income generating project.
- 1.4.9 Members will recall that in the last three years a provision has been included in the Capital Plan to allow these fast track schemes to proceed as quickly as possible; provided of course they complete a successful evaluation. Bearing in mind the rationale for evaluating these potential schemes on a fast-track basis and notwithstanding the budget pressures already highlighted in this report, members may consider it prudent to continue this practice.
- 1.4.10 If this practice were to be followed, the Corporate Provision for Fast Track Schemes within the Corporate Services element of List A would need to be increased by £507,000 in 2008/09. This would then provide the opportunity for the fast track schemes to proceed as soon as possible once they had completed a successful evaluation.
- 1.4.11 There would, of course, be revenue implications flowing from the implementation of any or all of the fast-track schemes in 2008/09. We estimate that if the provision was made as set out in paragraph 1.4.10 above, revenue costs of £12,650 would need to be made in the Medium Term Financial Strategy for 2008/09, rising to £35,350 in subsequent years.
- 1.4.12 **An updated summary of the Capital Plan is attached at [Annex 7]. This summary includes all List B schemes (with the exception of the 2008/09 contribution to the Snodland Partnership for the reasons outlined in paragraph 1.4.6, together with the unallocated balance referred to in paragraph 1.4.7) and the provision for fast-track schemes proposed in paragraph 1.4.10 above.** The column for expenditure to 31 March 2007 shows a reduction due to the deletion of schemes for which no budget exists after 31 March 2007. The capital grants budgets in Leisure Services and Corporate Services have been reprofiled to reflect the awards for 2008/09 following Finance and Property Advisory Board; the overall totals for these budgets remain the same. The balance of the existing Corporate Provision for Fast Track Schemes (£53,000) has moved from 2007/08 to 2008/09.
- 1.4.13 The Department for Communities and Local Government, awards capital grants for Disabled Facilities grants subsidy and Regional Housing Pot. At this time last year, no announcement had been made. Subsequently, awards of £301,000 and £241,000 were made for Disabled Facilities Grants subsidy and Regional Housing Pot respectively. So far there have been no announcements of allocations for 2008/09. However, as reported orally at both the Strategic Housing Advisory Board on the 7 January and the Policy Overview Committee on 22 January, an additional £35,000 subsidy towards the costs of Disabled Facilities grants has been awarded in 2007/08. This additional award has been reflected in the summary figures at **[Annex 7]**.
- 1.4.14 Members may also be aware of the recent award of £1.62M over a three year period 2008 - 2011 in respect of the Private Sector Renewal Programme. This is

extremely good news for the Borough and will be reported to the next meeting of the Strategic Housing Advisory Board on 12 February 2008. Some of the grant award can be used to fund items that we had already planned to include in our Capital Plan, and the remainder will be used for new initiatives. Therefore, the receipt of this grant creates some 'headroom' to accommodate the List B items and the fast track items set out in the paragraphs above.

- 1.4.15 Within the Capital Plan figures reported to the Finance and Property Advisory Board on 2 January there is a provision of £108,000 in 2009/10 in respect of East Peckham Flood Alleviation. No further expenditure is expected on this project beyond 2007/08 and it is proposed that the 2009/10 provision be deleted. The figures in **[Annex 7]** reflect this deletion. However, it should be noted that there is a dispute with the contractor over the final account. Our professional advisors confirm that the contractor has no reasonable claim likely to result in further payments. If any further payment is ultimately required this will need to be met as a one-off cost from reserves.
- 1.4.16 The Capital Plan figures also include a provision of £62,000 for 2007/08 for the Larkfield Leisure Centre Development Programme. This project has been completed for several years and the provision has been pending final settlement with the contractor. It is viewed as unlikely that any further payment will be made and it is proposed that this provision be deleted. The figures in **[Annex 7]** reflect this deletion.
- 1.4.17 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]**.
- 1.4.18 **Taking all the issues raised within this paragraph (1.4) into account, we recommend that , as well as the provision for the fast-track schemes set out in paragraph 1.4.9 above, all List B schemes (excluding Snodland Partnership for the reasons set out in the report) be transferred to List A.**
- 1.4.19 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. Developer contributions have been secured for the whole cost of this scheme and it is recommended that the scheme should be transferred from List B to List A.

1.4.20 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 2 January 2008.
- 2) Cabinet approves the new List C schemes shown in **[Annex 3]**.
- 3) Cabinet approves the deletion of the List C schemes shown in **[Annex 4]**.
- 4) Cabinet, with the exception of the Snodland Regeneration Initiatives 2009/10 scheme, 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 an increase of £507,000 in the corporate capital plan provision for fast track schemes to cover the possible implementation in 2008/09 of those schemes selected for fast-track evaluation.
- 6) Cabinet approves the transfer of the following List B schemes to List A:

Traffic management: Local Transport Plan Partnership Programme 2008/09 (Provision £50,000 in 2008/09).

Land drainage / Flood Defence: Drainage Improvement Programme (Provision £15,000 in 2007/08 rising to £20,000 in 2008/09 and subsequent years).

Tonbridge Swimming Pool: Wet Change Area – Disability Discrimination Act Improvements (Provision £40,000 in 2008/09).

Leisure Facilities: Energy Saving Measures at Leisure Centres. (Provision £120,000 in 2008/09).

Poult Wood Golf Centre: Replacement of Irrigation System (Provision £208,000 in 2008/09).

Tonbridge Racecourse Sportsground: Provision of Ball Court. (Provision £70,000 in 2008/09 – to be funded from developer contributions).

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

Tonbridge Riverside Path Enhancement.

## **1.5 Prudential Code and Treasury Management Strategy Statement and Investment Strategy**

- 1.5.1 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).
- 1.5.2 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.
- 1.5.3 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.
- 1.5.4 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 2008/09.
- 1.5.5 A summary of the indicators appears in the table below:



| <b>Table 1: Treasury Management Prudential Indicators</b>          |                          |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Prudential Indicator</b>  | <b>2007/08<br/>£'000</b> | <b>2008/09<br/>£'000</b> | <b>2009/10<br/>£'000</b> | <b>2010/11<br/>£'000</b> |
| 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 2008/09 | Upper Limit              |                          | Lower Limit              |                          |
|  | Under 12 months          |                          | 100%                     |                          |
|  | Over 12 months           |                          | NIL                      |                          |

- 1.5.6 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.
- 1.5.7 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.
- 1.5.8 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.
- 1.5.9 The **other prudential indicators** which we are required to set are shown in the table below:

**Table 2 - Prudential Indicators**

|                                     |  |  |   |  |  |  |  |
|-------------------------------------|--|--|---|--|--|--|--|
| <b>1.</b>                           | 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%.   |  |  |  |  |
| 2006/07<br>actual<br>-11.90%        | 2007/08<br>estimated<br>-14.08%  | 2008/09<br>estimated<br>-11.83%        | 2009/10<br>estimated<br>-9.87%  | 2010/11<br>estimated<br>-8.85%         | 2011/12<br>estimated<br>-7.87%         | 2012/13<br>estimated<br>-7.16%         | 2013/14<br>estimated<br>-6.58%         |
| <b>2.</b>                           | 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.<br>The figures below show 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 <b>[Annex 10]</b> . |  |  |  |  |
| Total                               |  | 2008/09<br>estimated<br>£<br>(0.14)    | 2009/10<br>estimated<br>£<br>0.00   | 2010/11<br>estimated<br>£<br>0.00      | 2011/12<br>estimated<br>£<br>0.00      | 2012/13<br>estimated<br>£<br>0.00      | 2013/14<br>estimated<br>£<br>0.00      |
| <b>3.</b>                           | Actual and estimated capital expenditure   |  | This indicator is based on the existing capital plan position recommended by the Policy Overview Committee on 22 January 2008 and, in addition, includes all list B schemes and the provision for fast-track schemes. The figures are based on those shown in <b>[Annex 8]</b> adjusted for accruals.                             |  |  |  |  |
| 2006/07<br>actual<br>£'000<br>2,963 | 2007/08<br>estimated<br>£'000<br>4,725   | 2008/09<br>estimated<br>£'000<br>4,721 | 2009/10<br>estimated<br>£'000<br>2,642  | 2010/11<br>estimated<br>£'000<br>2,457 | 2011/12<br>estimated<br>£'000<br>2,009 | 2012/13<br>estimated<br>£'000<br>2,107 | 2013/14<br>estimated<br>£'000<br>2,008 |

1.5.10 We, therefore, **RECOMMEND** that for the financial year 2008/09 the prudential indicators listed in paragraphs 1.5.5 and 1.5.9 be recommended to Council for adoption.

## **1.6 Consultation with Non-Domestic Ratepayers**

1.6.1 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 18 January 2008. ***Cabinet is advised that no comments have been received.***

## **1.7 Update of Medium Term Financial Strategy**

1.7.1 The budget for 2008/09 is, naturally, the starting point for updating the Medium Term Financial Strategy. Referring to the holding report, members will note that the current Summary Total for the 2007/08 Revised Estimates is £13,977,000 and

for the 2008/09 Estimates is £14,602,300. The following further adjustments are proposed:

**Table 3 - Draft Revenue Estimates Amendments**

|  | <b>2007/08<br/>Revised<br/>Estimate<br/>£</b> | <b>2008/09<br/>Estimate<br/>£</b> |
|--|---|-----------------------------------|
| <b>Holding Report Summary Total</b>  | <b>13,977,000</b>                             | <b>14,602,300</b>                 |
| Additional Capital Plan List B items to be transferred to List A (paragraph 1.4.2) | (19,000)                                      | (18,650)                          |
| Provision for Fast-track Capital Plan items (paragraph 1.4.4)                      |   | 12,650                            |
| Licence Fees   |   | (15,100)                          |
| Investment Income  |   | (10,000)                          |
| Rents - Shops and Maisonettes  | 7,500   | 7,500                             |
| <b>Amended Summary Total</b>   | <b>13,965,500</b>                             | <b>14,578,700</b>                 |

- 1.7.2 The amended summary total is used in the budget projections shown in table 4. 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.
- 1.7.3 The Government has reiterated its intention to cap excessive council tax increases and there appears to be an increased emphasis on keeping council tax increases below 5%. The Minister has stated that:
- "Keeping council tax under control remains a top priority for the Government. We expect the average council tax increase to be **substantially below 5 per cent.**"*
- 1.7.4 The Medium Term Financial Strategy adopted last year assumed council tax **increases of 4.95% for each year of the strategy**, and it has been our intention throughout this process, where at all possible, to reaffirm this level of increase. There is a risk that this level of increase might be the subject of challenge, albeit in our opinion this is unlikely and would suggest that we continue to pull together our Medium Term Financial Strategy on the basis we have allowed.
- 1.7.5 At paragraph 1.1.4 we set out the objectives of the current Medium Term Financial Strategy and it has been our intention throughout this process, to reaffirm the continuing appropriateness of the objectives supported by the review of the Robustness of the Estimates and the Adequacy of the Reserves.

- 1.7.6 As has been rehearsed throughout this budget cycle, the Council's budget (Medium Term Financial Strategy) is under severe pressure particularly following the local government finance settlement for the three-year period 2008/09 to 2010/11. The financial 'discipline' and process we instil through our Medium Term Financial Strategy does, however, afford us the opportunity to take a constructive and considered approach to budget matters, and not a "knee-jerk" reaction.
- 1.7.7 The Director of Finance has intimated during the course of this budget cycle that it is likely that we may need to 'defer' our objective of achieving a balanced budget by one (or more) year. Accordingly, in reconsidering the objective to achieve a balanced budget by 2011/12 both the Finance and Property Advisory Board and the Policy Overview Committee **recommended** that the Cabinet reconsider the broad objectives of the Medium Term Financial Strategy in terms of achieving a balanced budget at an appropriate time depending on the Council's financial position.
- 1.7.8 In considering the overall financial position, we suggest that the objective to achieve a balanced budget should be **deferred by one year**, to 2012/13. This does not, however, mean that the financial 'challenges' are resolved.
- 1.7.9 At the meeting of Finance & Property Advisory Board in early January, the Director of Finance alluded to a potential 'gap' of approximately £650,000 based on the assumptions and estimates made at that time. Since that meeting, there has been a number of adjustments to the Estimates - (see table 3 of this report and paragraph 1.2.3 of the 'holding' report circulated with the agenda for this meeting) - as well as slight variations to assumptions made over the medium term which have moved that 'gap'.
- 1.7.10 As can be seen from table 4, the 'gap' has now reduced to £489,000 from 2009/10. **In round terms, this is effectively a target to reduce costs and or generate additional income of £0.5M in a full financial year.** If savings, or additional income, can be delivered during the course of 2008/09 then this will help to reduce the overall target.
- 1.7.11 The Management Team, in consultation with the Cabinet, intends to identify options to address the funding gap and present these to the Cabinet meeting in April. Clearly some of these may be more palatable than others but it is important that a range of options are considered. We would envisage that, where appropriate, Advisory Boards will be requested to consider the options further and make appropriate recommendations to Cabinet.
- 1.7.12 At this stage we are unable to elaborate further as to how the funding gap will be bridged, but we must emphasise that the options must be found and implemented before 2009/10 in order to maintain the integrity of our Medium Term Financial Strategy.

1.7.13 In terms of the level of our reserves, members may recall that a report to the Finance and Property Advisory Board on the 23 May 2007 recommended a **minimum general revenue reserve balance of £3.0m**. We are of the view in the context of the Medium Term Financial Strategy that this level continues to be appropriate for an authority of our size and scale, and should be reaffirmed. In addition, it is recommended that the objectives reflect both the 2003 council tax survey and feedback from the recent 2007 council tax and budget consultation exercise (see report to Cabinet meeting on 21 November 2007).

**Table 4 - Revenue Budget Plan and Projected Council Tax Levels 2008/09 - 2013/14**

|                                    | <b>Estimate<br/>2008/09</b> | <b>Project'n<br/>2009/10</b> | <b>Project'n<br/>2010/11</b> | <b>Project'n<br/>2011/12</b> | <b>Project'n<br/>2012/13</b> | <b>Project'n<br/>2013/14</b> |
|------------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                    | <b>£000</b>                 | <b>£000</b>                  | <b>£000</b>                  | <b>£000</b>                  | <b>£000</b>                  | <b>£000</b>                  |
| <b>EXPENDITURE</b>                 |                             |                              |                              |                              |                              |                              |
| Employees                          | 11,943                      | 12,223                       | 12,528                       | 12,841                       | 13,288                       | 13,633                       |
| Transfer Payments                  | 26,529                      | 27,192                       | 27,872                       | 28,569                       | 29,283                       | 30,015                       |
| Other Expenditure                  | 12,803                      | 12,746                       | 12,960                       | 13,199                       | 13,612                       | 13,983                       |
| Capital Charges                    | 2,570                       | 2,634                        | 2,700                        | 2,768                        | 2,837                        | 2,908                        |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| Total Expenditure                  | 53,845                      | 54,795                       | 56,060                       | 57,377                       | 59,020                       | 60,539                       |
| <b>INCOME</b>                      |                             |                              |                              |                              |                              |                              |
| Fees & Charges                     | (7,214)                     | (7,378)                      | (7,518)                      | (7,714)                      | (8,087)                      | (8,238)                      |
| Specific Grants & Misc             | (27,940)                    | (28,504)                     | (29,186)                     | (29,915)                     | (30,663)                     | (31,430)                     |
| Investment Income                  | (1,654)                     | (1,438)                      | (1,343)                      | (1,250)                      | (1,188)                      | (1,139)                      |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| Total Income                       | (36,808)                    | (37,320)                     | (38,047)                     | (38,879)                     | (39,938)                     | (40,807)                     |
| Appropriations                     | (2,458)                     | (2,155)                      | (2,018)                      | (2,068)                      | (2,139)                      | (2,161)                      |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| Net Budget prior to budget savings | 14,579                      | 15,320                       | 15,995                       | 16,430                       | 16,943                       | 17,571                       |
| Required budget savings            | 0                           | (489)                        | (501)                        | (514)                        | (527)                        | (540)                        |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| <b>NET BUDGETED SPEND</b>          | <b>14,579</b>               | <b>14,831</b>                | <b>15,494</b>                | <b>15,916</b>                | <b>16,416</b>                | <b>17,031</b>                |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| <b>FUNDING</b>                     |                             |                              |                              |                              |                              |                              |
| Revenue Reserves                   | 600                         | 261                          | 314                          | 36                           | (175)                        | (285)                        |
| Government Grant                   | 6,452                       | 6,484                        | 6,522                        | 6,652                        | 6,785                        | 6,921                        |
| Council Tax                        | 7,552                       | 8,086                        | 8,658                        | 9,228                        | 9,806                        | 10,395                       |
| Collection Fund Adjustment         | (25)                        | 0                            | 0                            | 0                            | 0                            | 0                            |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| Total Funding                      | <b>14,579</b>               | <b>14,831</b>                | <b>15,494</b>                | <b>15,916</b>                | <b>16,416</b>                | <b>17,031</b>                |
|                                    | -----                       | -----                        | -----                        | -----                        | -----                        | -----                        |
| <b>Band D Council Tax</b>          | <b>£159.50</b>              | <b>£167.39</b>               | <b>£175.67</b>               | <b>£184.36</b>               | <b>£193.48</b>               | <b>£203.05</b>               |
| <b>Increase on Last Year</b>       | <b>4.95%</b>                | <b>4.95%</b>                 | <b>4.95%</b>                 | <b>4.95%</b>                 | <b>4.95%</b>                 | <b>4.95%</b>                 |
| <b>Reserves Balance C/Fwd</b>      | <b>3,611</b>                | <b>3,350</b>                 | <b>3,036</b>                 | <b>3,000</b>                 | <b>3,175</b>                 | <b>3,460</b>                 |

1.7.14 Turning back to the specific budget year 2008/09, an updated summary of the Revenue Estimates Booklet is attached at **[Annex 11]**. The final column incorporates all the adjustments set out in paragraph 1.7.1 above. Members should note that the budget for 2008/09 is supported by a take from reserves of £599,600.

1.7.15 Cabinet is **RECOMMENDED** to:

- 1) Endorse the adjustments to the draft revenue estimates outlined in paragraph 1.7.1.
- 2) Update the Medium Term Financial Strategy as set out at paragraphs 1.7.8 and 1.7.13.
- 3) Endorse the proposed process for considering options for savings as set out in paragraph 1.7.9.

## **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 deficit, which was calculated on 15 January in accordance with statutory requirements (see **[Annex 12]**), is £182,656. The Borough Council's share of the deficit is **£25,234**. This deficit must be taken into account when setting the council tax for 2008/09.

## **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 2008/09 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 2007 and proposed utilisation of those reserves to the 31 March 2009 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 2007/08.
- 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. It is important to recognise that this is predicated on the basis that savings of the required level of circa £0.5M will be identified before the start of 2009/10. The existence (and discipline) of our Medium Term Financial Strategy affords us the time to ensure that the funding 'gap' is addressed through a methodical and considered process rather than through 'knee-jerk' reactions. We are confident that this will be achieved, and are committed to ensuring that the principles of our Medium Term Financial Strategy are delivered.
- 1.10.6 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance.

## 1.11 Calculation of Budget Requirement 2008/09

- 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 recommendations set out in paragraph 1.7.15, 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 1.2.1) 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  | 6,451,870 |
| Collection Fund Adjustments | (25,234)  |
|                             | -----     |
| Total                       | 6,426,636 |

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.

1.15.2 The Secretary of State has announced that he expects to see council tax increases of substantially less than 5%. The Medium Term Financial Strategy continues to assume that our council tax increases will be 4.95% year on year. To reduce the increase would mean that our savings target would need to increase even further. Whilst there is clearly a risk that the Secretary of State may



consider a 4.95% increase to be 'excessive' (in the context of his announcement), we believe that this is a defensible position particularly given the extremely poor settlement we have received and the pressures this, and concessionary fares, have imposed on us.

## 1.16 Summary of Recommendations

### 1.16.1 Cabinet is **RECOMMENDED** to:

- 1) Update the Capital Plan as set out in paragraph 1.4.12 and recommend that Council adopt the Capital Plan accordingly.
- 2) Endorse the prudential indicators listed in paragraph 1.5.5 and 1.5.9 and recommend to Council that they be adopted.
- 3) Endorse the adjustments to the draft revenue estimates outlined in paragraph 1.7.1.
- 4) Endorse the proposed process for considering options for savings as set out in paragraph 1.7.9
- 5) Update the Medium Term Financial Strategy as set out at paragraphs 1.7.8 and 1.7.13.
- 6) 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

Letter and supporting papers from DCLG re Final Settlement dated 24 January 2008 (contained on DCLG website)

[www.local.communities.gov.uk/finance/0809/grant.htm](http://www.local.communities.gov.uk/finance/0809/grant.htm)

|                 |                     |                       |                            |
|-----------------|---------------------|-----------------------|----------------------------|
| David Hughes    | Sharon Shelton      | Mark Worrall          | David Aikman               |
| Chief Executive | Director of Finance | Leader of the Council | Cabinet Member for Finance |