

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

12 February 2013

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

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET 2013/14

Further to reports to the meeting of the Finance and Property Advisory Board and Overview and Scrutiny Committee earlier in the cycle, this report updates Cabinet on issues relating to the Medium Term Financial Strategy. It also takes Members through the necessary procedures in order to set the Budget for 2013/14.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 14 February, Members will determine both the Budget and the level of council tax for 2013/14. The detailed Estimates for 2013/14 prepared by your Officers, having regard to the guidance given by Cabinet, have been carefully considered by both the Finance and Property Advisory Board and the Overview and Scrutiny Committee. Details are set out at paragraph 1.3 below.
- 1.1.2 Whilst the primary purpose of this report is for Cabinet to recommend the Budget and resultant level of council tax for 2013/14; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy covering a ten-year period. Financial decisions made in respect of the year 2013/14 will have an impact across the Medium Term Financial Strategy and upon the savings targets the Council will need to achieve in order to 'balance its books'. As Members will fully appreciate, it has been one of the Council's strong objectives throughout these times of 'challenge' to preserve, for as long as possible, the Services that are provided to and valued by residents. However, we must not lose sight of the scale of this particular 'challenge'.
- 1.1.3 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. As I reported to Cabinet in November, 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.

- 1.1.4 Also, the Localism Act requires a local authority to seek the approval of their electorate via a local referendum if it proposes to raise council tax above the threshold set by the Secretary of State. For us this was set at 2.0%. Please note the limit may differ slightly due to the requirement to use 'alternative notional amounts' for the year 2012/13 provided by central government and to exclude the payment of any special levies from the calculation. Having taken into account these issues the 'trigger point' for us is a fraction over 1.9%. Therefore, for the purposes of this report, **if the Council were to contemplate an increase in council tax for 2013/14 we would advise that the increase should be limited to 1.9%.**
- 1.1.5 It is for Members at both Cabinet and Full Council to weigh up the merits of accepting the government grant and to freeze council tax as opposed to an increase of 1.9%. Cabinet's role is to provide guidance or recommendations to the Full Council as to the way forward.
- 1.1.6 It must be remembered that, in either case, the Council continues to face a significant financial challenge in respect of identifying and implementing savings over the coming years. As Members are aware, we set a target of achieving savings of £635,000 by 31 March 2013, and as reported to the meetings of Finance & Property Advisory Board in January and Cabinet in November, the savings identified thus far take us on or around that target. However, our latest projections suggest that **further savings** of circa £2.8m will be needed should a council tax increase of 1.9% be approved; alternatively those savings will increase by a further £300,000 should the grant be accepted and the council tax frozen.
- 1.1.7 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members' attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:
- Local Government Finance Settlement
 - Revenue Estimates 2013/14
 - Fees and Charges
 - Capital Plan
 - Prudential Code and Treasury Management Strategy Statement and Annual Investment Strategy
 - Consultation with Non-Domestic Ratepayers

- Update of Medium Term Financial Strategy
- Collection Fund Adjustments
- Parish Councils
- Robustness of Estimates / Adequacy of Reserves
- Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

- 1.2.1 On the 19 December 2012 details of the 2013/14 provisional local government finance settlement were published along with indicative figures for 2014/15. One issue on which we made a response was to do with our funding allocation in respect of the council tax support scheme, **and our allocation has been increased as a result**. The final settlement was confirmed on the afternoon of 4 February. A copy of the statement by the Secretary of State for Communities and Local Government is attached at **[Annex 1a]** for Members' information.
- 1.2.2 Attached at **[Annex 1b]** for Members' information is a copy of the written statement setting out 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.
- 1.2.3 Members will be aware that the Business Rates Retention scheme is to replace the Formula Grant system from 1 April 2013. The start-up funding allocation is set so as to provide each local authority with a stable starting point, and receive the same level of funding as they would have done under the current arrangements.
- 1.2.4 Members may recall that the Leader of the Council and Cabinet Member for Finance were asked to write to five MPs: Sir John Stanley, Tracey Crouch, Greg Clark, Michael Fallon and Helen Grant expressing our concerns about the proposed Business Rates Retention scheme and in particular the safety net and levy arrangements and to ask for their support of our response to the consultation. Three of the MPs did follow-up our concerns with the Secretary of State and copies of the exchange of correspondence are attached at **[Annex 1c]**.
- 1.2.5 Each authority's start-up funding allocation will comprise its share of the local share of business rates (its baseline funding level) plus revenue support grant which will be made up of two elements: funding allocated using an updated version of the 2012/13 formula grant process and grants which have been rolled into the Business Rates Retention scheme.
- 1.2.6 Our start-up funding allocation for 2013/14 is £5,033,255 made up as follows: baseline funding level of £2,010,774 and revenue support grant of £3,022,481. (As noted at paragraph 1.2.1, the figures are slightly higher than the provisional settlement due to the successful representation we made). Please note the start-

up funding allocation includes the parish councils funding of £173,111 in respect of the council tax support scheme.

- 1.2.7 Our indicative allocation for 2014/15 is £4,400,109 made up as follows: baseline funding level of £ 2,072,446 and revenue support grant of £2,327,663. Again, please note that this figure includes the parish councils funding in respect of the council tax support scheme.
- 1.2.8 A comparison of our start-up funding allocation for 2013/14 and indicative allocation for 2014/15 with those of other Kent district councils is provided at **[Annex 1d]**.

1.3 Revenue Estimates 2013/14

- 1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2013/14 were presented to the meeting of the Finance and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Advisory Board and of the Committee is to assist both the Cabinet and the Council in the development of its budget within the context of the Medium Term Financial Strategy and the Council's priorities. Whilst a number of questions were posed by Members at these meetings, the Revenue Estimates as presented were endorsed subject to the adjustments shown in the table below. The figures have also been updated having received details from the Internal Drainage Boards of actual levies and to reflect the establishment changes reported to the General Purposes Committee on 4 February.
- 1.3.2 As set out in the 'holding' report circulated with the agenda, from a **technical point of view** whether the Council makes a decision to accept the 'freeze' grant or not affects the 'Summary Total' for the 2013/14 Estimates. The table below illustrates the position for 2013/14 for both scenarios.

	Revised Estimate 2012/13 £	Original Estimate 2013/14 (no freeze) £	Original Estimate 2013/14 (freeze) £
Summary Total reported to Finance and Property Advisory Board on 9 January	14,192,250	13,755,700	13,755,700
Council Tax Support – Parish Councils		177,750	177,750
Discretionary Rate Relief		(60,000)	(60,000)
Police Accommodation Licence Fee		(10,000)	(10,000)
Members Allowances		(43,050)	(43,050)
Internal Drainage Boards		(1,100)	(1,100)

General Purposes Committee on 4 February – Establishment Changes (net)		(16,600)	(16,600)
Council Tax Support – Transition Grant		(25,550)	(25,550)
Council Tax Freeze Grant			(87,900)
Current Summary Total	14,192,250	13,777,150	13,689,250

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

1.4 Fees and Charges

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

1.4.2 Cabinet is accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Board.

1.5 Capital Plan

1.5.1 As reported in the holding report the Capital Plan Review process started at the Finance and Property Advisory Board on 9 January followed by the Overview and Scrutiny Committee on 29 January.

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

1.5.3 Members were reminded of the criteria established this time last year to guide the inclusion of new schemes to List C (wish list) and ultimately the inclusion of schemes on List A (schemes assigned budget provision). The criteria are: to meet legislative requirements including health and safety obligations; funded from external resources; generate income or reduce revenue expenditure. For Members awareness, the subsequent recommendations where appropriate satisfy one or more of these criteria.

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

- 1.5.5 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of our assets which deliver services as well as providing money for statutory services, e.g. Disabled Facilities Grants. In order to get to this position there is now an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance.
- 1.5.6 In setting the budget for 2012/13 that allowance was set at £350,000. However, it is **recommended** that expenditure on improvements to existing car parks with an average annual spend of £30,000, currently met from the allowance, is budgeted for each year outside of the Capital Plan review process and the annual capital allowance reduced to £320,000.
- 1.5.7 After debates, the Finance and Property Advisory Board and Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers subject to removal of the contribution of £240,000 towards Coldharbour Gypsy and Traveller Site which would be totally funded externally and the schemes for environmental enhancement of shopping areas at Larkfield (A20), Woodlands Road and Twisden Road being retained on List C.
- 1) The Capital Plan (List A) provisions as summarised in **[Annex 3]** be adopted.
 - 2) The schemes listed in **[Annex 4]** are added to List C, deleted from List C or merged as detailed.
 - 3) The schemes listed in **[Annex 5]** are selected for evaluation over the coming year, with one scheme being selected for fast track evaluation that has already been evaluated.
 - 4) The evaluated List C schemes including the one identified for fast track evaluation that has already been evaluated is progressed in accordance with the recommendation shown in **[Annex 6]**.
- 1.5.8 The estimated annual revenue costs of the evaluated List C schemes are given in the table below. The amount and timing of any revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income. It can be seen that if the schemes recommended for transfer from List C to List B are transferred to the Capital Plan (List A) the estimated revenue consequence is £5,500 in 2013/14 and £(10,500) in subsequent years.

Scheme	Capital Cost £	Revenue Impact	
		2013/14 £	2014/15 £
Tonbridge Cemetery Memorial Garden Vaults	35,000	1,750	1,750
Tonbridge Pool Car Park Improvements / Extension	75,000	3,750	(12,250)
Total	110,000	5,500	(10,500)

- 1.5.9 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.5.8 is attached at **[Annex 7]**.
- 1.5.10 A funding statement based on **[Annex 7]** is attached at **[Annex 8]**. The main source of funding is the Revenue Reserve for Capital Schemes and the impact on the Revenue Reserve for Capital Schemes is illustrated in **[Annex 9]**.
- 1.5.11 Accordingly, it is **RECOMMENDED** that:
- 1) Cabinet endorse that expenditure on improvements to existing car parks be treated as recurring expenditure and the annual capital allowance from 2013/14 be set at £320,000.
 - 2) Cabinet approves the position of the existing Capital Plan (List A) as summarised in **[Annex 3]**.
 - 3) Cabinet approves that the schemes as detailed in **[Annex 4]** are added to List C, deleted from List C or merged.
 - 4) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year, with one scheme being selected for fast track evaluation that has already been evaluated.
 - 5) Cabinet approves the transfer of the schemes detailed in **[Annex 6]** to the Capital Plan (List A).
 - 6) Cabinet approves the updated Capital Plan (List A) as summarised in **[Annex 7]**.
 - 7) Cabinet endorse the draft Capital Strategy as presented to the Finance and Property Advisory Board on 9 January and the Overview and Scrutiny Committee on 29 January.

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

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

follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 1.6.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice (the Code) is adopted and that a number of prudential indicators are set. In response to the difficulties caused by the banking crisis CIPFA undertook a review of the Code and Cross-Sectoral Guidance Notes and other associated documents.
- 1.6.3 The outcome of that review was the publication in December 2009 of a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes and other associated documents. Council adopted the December 2009 edition of the Code of Practice on Treasury Management on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14.
- 1.6.4 Elsewhere on this agenda there is a report on the Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14. The approval of the Strategy and determination of the prudential indicators has to be made by the body setting the Council Tax, i.e. Full Council, as do amendments to either the Strategy or indicators during the year.
- 1.6.5 The CIPFA Prudential Code for Capital Finance in Local Authorities under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set as follows :
- 1) The capital financing requirement - the extent to which the authority needs to undertake external borrowing to support its capital programme.
 - 2) The operational boundary for external debt.
 - 3) The authorised limit for external debt.
 - 4) The actual external debt.
 - 5) The upper limit for fixed interest rate exposure.
 - 6) The upper limit for variable rate exposure.
 - 7) The upper limit for total principal sums invested for over 364 days.
 - 8) The maturity structure for new fixed rate borrowing during 2013/14.

A summary of the indicators appears in the table below:

Treasury Management Prudential Indicators					
Prudential Indicator	2011/12 Actual	2012/13 Revised Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£'000	£'000	£'000	£'000	£'000
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	2,000	2,000	2,000	2,000
The authorised limit for external debt	NIL	5,000	5,000	5,000	5,000
Actual external debt	NIL	NIL	NIL	NIL	NIL
The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%			
The upper limit for variable rate exposure < 1 year at year end	23,694 90.4%	It is anticipated that the net exposure will range between 40% to 100%			
The upper limit for total principal sums invested for over 364 days at year end	1,528 5.8%	60% of core funds			
The maturity structure for new fixed rate borrowing during 2013/14	Upper Limit		Lower Limit		
Under 12 months	100%		0%		
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:

Prudential Indicators

1.	Ratio of actual and estimated financing costs to the net revenue stream	(Interest payable with respect to borrowing less interest and investment income) ÷ (government grants plus call on local taxpayers) x 100%.					
No freeze							
2011/12 actual	2012/13 estimated	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated
-3.33%	-2.55%	-2.06%	-1.86%	-2.86%	-3.71%	-4.35%	-4.70%
Freeze							
2011/12 actual	2012/13 estimated	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated
-3.33%	-2.55%	-2.07%	-1.86%	-2.88%	-3.71%	-4.33%	-4.65%
2.	Estimates of the incremental impact of capital investment decisions on the Council Tax	The revenue impact of capital schemes added to the ongoing capital plan on the Council Tax Band D Equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] .					
Total		2013/14 estimated £ 0.12	2014/15 estimated £ (0.35)	2015/16 estimated £ 0.00	2016/17 estimated £ 0.00	2017/18 estimated £ 0.00	2018/19 estimated £ 0.00
3.	Actual and estimated capital expenditure	This indicator is based on the updated capital plan position. The figures are based on those shown in [Annex 8] .					
2011/12 actual £'000	2012/13 estimated £'000	2013/14 estimated £'000	2014/15 estimated £'000	2015/16 estimated £'000	2016/17 estimated £'000	2017/18 estimated £'000	2018/19 estimated £'000
2,016	3,406	2,965	1,786	1,829	1,723	1,981	1,741

1.6.10 We, therefore, **RECOMMEND** that for the financial year 2013/14 the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 be recommended to Council for adoption.

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

1.6.12 The spreading of these costs is through what is termed an annual minimum revenue provision. Other than to account for embedded leases under International Financial Reporting Standards, as the Council is debt free and, for the foreseeable future, does not expect to borrow to support its capital programme

the minimum revenue provision is nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing.

- 1.6.13 We, therefore, **RECOMMEND** that for the financial year 2013/14, other than to account for embedded leases under International Financial Reporting Standards, our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 Representatives of the Council's Non Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. The consultees, who include the local Chambers of Commerce as well as a group of the larger ratepayers in the Borough, receive on request information and copies of the draft budgets and are invited to make written representations if they deem it appropriate. The deadline given for responses was 18 January 2013. ***Cabinet is advised that no comments have been received.***

1.8 Update of Medium Term Financial Strategy

- 1.8.1 To recap, the Council's Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The Medium Term Financial Strategy affords the opportunity to take a measured and structured approach to budget issues rather than a "knee jerk" reaction. The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future.
- 1.8.2 The Strategy also sets out based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans. Underneath the Strategy for the budget setting year sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.
- 1.8.3 Members 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 the 'funding gap' will influence the timescales we afford ourselves to address the problem.
- 1.8.4 The Medium Term Financial Strategy sets out the high level objectives the Council wishes to fulfil over the agreed time span and which 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.
- 1.8.5 There is one minor adjustment to be made to the objectives set out above and that is the annual capital allowance be set at £320,000 (paragraph 1.5.6 refers).
- 1.8.6 The budget for 2013/14 is, naturally, the starting point for updating the Medium Term Financial Strategy. Referring to paragraph 1.3.2 Members will note that the Summary Total for the 2012/13 Revised Estimates is £14,192,250; and for the 2013/14 Estimates is £13,777,150 (no freeze) and £13,689,250 (freeze) and are used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]** and **[Annex 11b]** respectively.
- 1.8.7 We have already alluded, within this report and previous reports, to both the offer of a council tax freeze grant and the 'trigger point' for a local referendum.
- 1.8.8 In respect of the latter, the Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.
- 1.8.9 In a written statement, Brandon Lewis MP set out the level of council tax increase for 2013/14 above which he intends to require the local authority to seek approval of their electorate via a local referendum. For us this was set at 2.0%. As explained in the Foreword, this is complicated by the requirement to use 'alternative notional amounts' for the year 2012/13 provided by central government and to exclude the payment of any special levies from the calculation. Having taken into account these issues the 'trigger point' for us is a fraction over 1.9%. Therefore, for the purposes of this report, if the Council were to

contemplate an increase in council tax for 2013/14 we would advise that the increase should be limited to 1.9%.

- 1.8.10 In respect of the Coalition Government's continued drive for a council tax freeze, as previously reported the Government is to 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.
- 1.8.11 As was discussed at Cabinet in November, 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 authority - **But** as the base against which future council tax increases would be made will be lower there are hidden adverse financial implications that simply add to the overall savings to be made.
- 1.8.12 As Cabinet previously acknowledged, there are clearly 'pros' and 'cons' of levying a small increase in council tax (option 1) and similarly accepting the freeze grant (option 2). Some of the headline statistics for the two 'options' are as follows:

	Option 1 (Increase 1.9%)	Option 2 (Freeze)
<u>2013/14</u>		
Council Tax Band D	£180.26	£176.90
Increase per annum	£3.36	£0
Increase per week	6 pence	0 pence
Anticipated Council Tax Income	£8,098,000	£7,947,000 excl freeze grant
<u>MTFS</u>		
Total Base budget savings required:	£2.8m	£3.1m
The savings could be broken down into tranches. For example:		
First tranche by 1 April 2014	£900,000	£950,000
Second tranche by 1 April 2016	£700,000	£750,000
Third tranche by 1 April 2017	£700,000	£750,000
Final tranche by 1 April 2019	£500,000	£650,000
Reserve balance at end of period	£2.084m	£2.161m

- 1.8.13 As can be seen from the table above, latest projections would suggest a budget funding gap of **circa £2.8m** (council tax increase 1.9%) and **£3.1m** (council tax freeze) and which explains our comment in previous reports that "*Right now there is a sense of one step forward, two steps back*". 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 1.9% adds £300,000 to the overall savings we have to make. **[Annexes 11a and 11b]** set out the picture for the Medium Term Financial Strategy. A graphical representation of the implications is given at **[Annex 11c]**.

- 1.8.14 Members will be aware that the current formula grant system is to be replaced by the Business Rates Retention scheme from April 2013. Our latest estimate of income to be derived from business rates in 2013/14 is higher than the baseline set. This has been taken into account in the Medium Term Financial Strategy bearing in mind the notable (potentially significant) volatility of this income source. It is worth noting that if our actual business rates income is less than the baseline set the authority will have to meet a share of that shortfall up to a maximum of circa £150,000 in 2013/14. Furthermore, we 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 £2.5 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.
- 1.8.15 As Members know, we do have a robust Medium Term Financial Strategy and the existence and discipline of the same affords us the time to take a constructive and considered approach to budgetary pressures. Clearly, the absolute size of the budget funding gap will influence the timescales we afford ourselves to address the problem. Based on the above projection and as shown in the table above we could, for example, breakdown the savings target into four tranches (a first tranche of £900,000 followed by two equal tranches of £700,000 and a final tranche of £500,000 – council tax increase 1.9%) or (a first tranche of £950,000 followed by two equal tranches of £750,000 and a final tranche of £650,000 – council tax freeze) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20.
- 1.8.16 The ability to effectively delay the implementation of the savings targets gives us the opportunity to 'test' and discuss proposals for any potential service reductions that might be necessary with our taxpayers with sufficient time to, where appropriate, adjust them. **Clearly, we will need to continue to look to take advantage of savings opportunities and efficiencies throughout this period as a matter of course.** We hope this will at least give Members some comfort and reassurance concerning the resilience of our Medium Term Financial Strategy and that the financial pressures facing the Council can be addressed in a measured and controlled way, but at the same time we should not underestimate the magnitude of the financial challenge faced by the Council.
- 1.8.17 Turning back to the specific budget year 2013/14, an updated Summary of the Revenue Estimates Booklet incorporating the adjustments set out at paragraph 1.3.2 for both a council tax increase of 1.9% and a council tax freeze are attached at **[Annex 12a]** and **[Annex 12b]** respectively. Members should note that the budget for 2013/14 is supported by a take from reserves of £695,700 (council tax increase 1.9%) and £758,750 (council tax freeze).

1.8.18 Cabinet is **RECOMMENDED** to:

- 1) Endorse the adjustments to the draft revenue estimates outlined at paragraph 1.3.2.
- 2) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.9% and council tax freeze respectively.
- 3) Update the Key Objectives of the Medium Term Financial Strategy as set out at paragraph 1.8.5 above.
- 4) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2013/14.

1.9 Collection Fund Adjustments

- 1.9.1 As the billing authority for the area, this Council has responsibility for maintaining the 'collection fund' accounts into which all the council taxes are paid (including those collected on behalf of other precepting authorities).
- 1.9.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to calculate the surplus / deficit on the collection fund and then share this between the major precepting authorities (including ourselves). These are known as collection fund adjustments. The adjustments relate to balances in the collection fund regarding the collection of council tax.
- 1.9.3 Our share of the deficit which was calculated on 15 January or next working day in accordance with statutory requirements is £49,799 **[Annex 13]**.
- 1.9.4 It is just worth noting that with the introduction of the Business Rates Retention scheme we will, from next year, also have to calculate the surplus / deficit on the collection fund in respect of business rates and then share this between Central Government, Kent County Council, Kent & Medway Fire and Rescue Authority and ourselves.

1.10 Parish Councils

- 1.10.1 For completeness, Cabinet is reminded that the Borough Council's expenditure is inclusive of the payments to Parish Councils under the Borough Council's Scheme of Financial Arrangements. Details of the Financial Arrangements for 2013/14 are set out at **[Annex 14]** for Members' information.
- 1.10.2 Also, the Parish Councils were notified on 21 December of their grant allocation in respect of the council tax support scheme including the additional amount in respect of 'transitional arrangements'. Since then we have been successful in seeking an increase in the council tax support grant; and in the spirit of the assurance given to Parish Councils that all monies specifically highlighted for local

precepting authorities will be 'passported' to them, the Parish Councils as a result will receive an additional amount to that notified.

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

1.11 Robustness of Estimates / Adequacy of Reserves

1.11.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annexes 16a and 16b]** sets out the Council's projected revenue reserve balances based on a council tax increase of 1.9% and council tax freeze respectively.

1.11.2 Members will be aware of our "defaulted" £1m investment with the Icelandic Bank, Landsbanki. Subject to exchange rates, we anticipate that we will recover all of the £1m we had on deposit with Landsbanki, together with the interest that was due had the deposit been repaid on time (October 2008) plus the award of additional interest for the period October 2008 to April 2009. To date £491,000 has been recovered.

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

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

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

1.11.6 That said, the Director of Finance and Transformation advises that, in both scenarios, she is satisfied as to the Robustness of the Estimates and the Adequacy of Reserves on the understanding that the savings target each scenario would produce is fully honoured and delivered. Clearly, as has been outlined above, the savings challenge increases should the Council opt to accept the council tax freeze grant.

1.11.7 A Statement covering the points above is appended at **[Annex 17]**.

1.11.8 A schedule of the reserves held by the Council at the 1 April 2012 and proposed utilisation of those reserves to the 31 March 2014 is provided for both a council tax increase of 1.9% and council tax freeze at **[Annex 17]** Table A and B respectively.

As this Council's Chief Financial Officer, the Director of Finance and Transformation has undertaken a review of the earmarked reserves held and is satisfied as to the position depicted in the Tables and will revisit the position as part of the closedown process for 2012/13.

1.11.9 Members will note that overall the Director of Finance and Transformation signifies that, in her professional opinion, the estimates are robust and the level of reserves adequate.

1.11.10 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance and Transformation.

1.12 Calculation of Borough Council's Tax Requirement

1.12.1 The Council is required to calculate:

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

1.12.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.18, the calculation for both a council tax increase of 1.9% and council tax freeze is set out at **[Annex 18a and 18b]** respectively for information. It should be noted that, for this purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

1.13 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.

1.13.2 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.

1.14 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 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 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.
- 1.15.3 There is so much uncertainty and volatility particularly in some of our major sources of income that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.15.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.
- 1.15.5 In addition, not identifying and implementing the requisite savings will put at risk the integrity of the Medium Term Financial Strategy.

1.16 Equality Impact Assessment

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

1.17 Summary of Recommendations

- 1.17.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Board.
- 2) Update the Capital Plan as set out in paragraph 1.5.11 and recommend that Council adopt the Capital Plan accordingly.
- 3) Endorse the draft Capital Strategy as presented to the Finance and Property Advisory Board on 9 January and the Overview and Scrutiny Committee on 29 January and recommend to Council it be adopted.
- 4) Endorse the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 and recommend to Council that they be adopted.

- 5) Endorse that for the financial year 2013/14 the Council's Minimum Revenue Provision as set out at paragraph 1.6.13 is nil and recommend to Council accordingly.
- 6) Endorse the adjustments to the draft revenue estimates as set out at paragraph 1.3.2 and recommend to Council accordingly.
- 7) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.9% and council tax freeze respectively.
- 8) Update the Key Objectives of the Medium Term Financial Strategy as set out at paragraph 1.8.5 above.
- 9) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2013/14.
- 10) Note and endorse the Statement provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves.

Background papers:

contact: Sharon Shelton

Nil

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Nicolas Heslop
Leader of the Council

Martin Coffin
Cabinet Member for Finance

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	Yes	Some changes to budgets may have potential to cause adverse impact and where this is deemed to be the case a separate report including an equality impact assessment has or will be undertaken at the appropriate time.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report sets out draft proposals in respect of the Budget for the forthcoming year within the context of the Medium Term Financial Strategy and the Council's priorities. As mentioned above changes to budgets where there are deemed to be equality issues a separate equality impact assessment has or will be undertaken at the appropriate time.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		See responses above.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.