

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

29 January 2013

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Cabinet

<p>MEMBERS ARE ASKED TO BRING WITH THEM THE ESTIMATES BOOKLET CIRCULATED WITH THE AGENDA FOR THE MEETING OF THE FINANCE AND PROPERTY ADVISORY BOARD</p>
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1 REVENUE ESTIMATES 2013/14

The Council has a statutory duty to set the level of council tax for the forthcoming financial year by 11 March. Under the Budget and Policy Framework Rules of the Constitution, the Cabinet is responsible for formulating initial draft proposals in respect of the Budget. The role of this Committee is to assist both the Cabinet and the Council in the preparation of the Budget for 2013/14 within the context of the Medium Term Financial Strategy and the Council's priorities.

1.1 Introduction and Timetable

1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget. This report is intended as the basis for recommendations from this Committee to the Cabinet.

1.1.2 A special meeting of the Cabinet is scheduled for 5 February to consider the recommendations of this Committee and of the Finance and Property Advisory Board and, in addition, take into account the Council's final grant settlement.

1.1.3 At that special meeting on the 5 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2013/14 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on 14 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.

1.1.4

- 1.1.5 The role of this Committee is to consider both the Revised Estimates for 2012/13 and the Estimates for 2013/14 within the context of the Medium Term Financial Strategy and the Council's priorities. The Committee is not asked to consider the Medium Term Financial Strategy, but for completeness, details of how we are updating the Strategy are contained within this report for information.
- 1.1.6 Copies of the Booklet containing the draft Revenue Estimates has already been circulated to all Members with the agenda for the meeting of the Finance and Property Advisory Board. Please bring your copy of the Booklet to this meeting. If Members require further copies, please contact Michael Withey, Principal Accountant on extension 6103 or by e-mail at michael.withey@tmbc.gov.uk.
- 1.1.7 Members will note from the Booklet that the 2013/14 Estimates total £13,755,700 **prior** to making a contribution to/from the General Revenue Reserve. This represents a **decrease of £276,750** or 2.0% over the Original Estimates for 2012/13. Members are referred to the report presented to the meeting of the Finance and Property Advisory Board for further details on the Estimates.
- 1.1.8 It is likely that there will need to be changes made to the Estimates as we move through the budget setting process. It is the intention of the Director of Finance to bring these together for the Cabinet Budget meeting in February, rather than introduce them in a piecemeal fashion.

1.2 Medium Term Financial Strategy

- 1.2.1 The Council's current 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 aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.
- 1.2.2 The Medium Term Financial Strategy sets out the high level objectives the Council wishes to fulfil over the agreed time span. This currently includes achieving a balanced revenue budget that delivers the Council's priorities and to retain a minimum of £2 million in the general revenue reserve by the end of the strategy period.
- 1.2.3 The Medium Term Financial Strategy also sets out based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans. Underneath the Strategy for the budget setting year sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.
- 1.2.4 Members are fully aware that the Council continues to face a significant financial challenge as a result of the Coalition Government's budget deficit reduction programme which has resulted in a reduction in the financial support it can offer to local government and the current economic climate, but we believe our Medium

Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.2.5 The Medium Term Financial Strategy will need to be updated and rolled forward as part of the 2013/14 budget setting process. As a reminder, the objectives currently set out in the Medium Term Financial Strategy are:

- To achieve a **balanced revenue budget** that delivers the Council's priorities by the end of the strategy period.
- To retain a **minimum of £2.0m** in the General Revenue Reserve by the end of the strategy period.
- Seek to set **future increases in council tax having regard to the guidelines** issued by the Secretary of State.
- Over the strategy period, **continue to identify efficiency savings and opportunities for new or additional income sources** within the Council's budget to contribute towards the identified 'funding gap'; and, if necessary thereafter, **seek appropriate reductions in service costs** following consultation, as necessary, with taxpayers.
- Set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (set at £350,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.3 Provisional Local Government Finance Settlement

1.3.1 On 19 December 2012 details of the provisional local government finance settlement were published for 2013/14 and indicative figures for 2014/15 also given. Each local authority's actual allocation for 2013/14 is expected to be confirmed in January 2013.

1.3.2 In a written statement, Brandon Lewis MP also 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%**. He also announced that no equivalent principles will apply for town and parish councils for 2013/14, although they may in future years; and he will set out the final principles for this regime at the time of the final settlement.

1.3.3 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 to be set so as to provide each local authority with a stable starting point, receive the same level of funding as they would have done under the current arrangements. The Business Rates Retention scheme for the two-year period 2013/14 to

2014/15 to operate within the spending control totals set out in the 2010 Spending Review and subsequently revised downwards.

- 1.3.4 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.
- 1.3.5 Our start-up funding allocation for 2013/14 is £4,986,000 made up as follows: baseline funding level of £1,992,000 and revenue support grant of £2,994,000. Please note that this figure includes the parish councils funding in respect of the council tax support scheme.
- 1.3.6 Our indicative allocation for 2014/15 is £4,359,000 made up as follows: baseline funding level of £2,053,000 and revenue support grant of £2,306,000. Again, please note that this figure includes the parish councils funding in respect of the council tax support scheme.
- 1.3.7 One issue on which we have made a response is the funding allocation in respect of the council tax support scheme. This is because our 2011/12 subsidy claim incorporated an adjustment covering a number of years and as a result the claim was artificially lower than it would otherwise have been.

1.4 Local Referendums to Veto Excessive Council Tax Increases

- 1.4.1 The Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.
- 1.4.2 As mentioned at paragraph 1.3.2 in his written statement, Brandon Lewis MP set out the levels of council tax increase for 2013/14 above which he intends to require local authorities to seek approval of their electorate via a local referendum. **For us this was set at 2.0%.**
- 1.4.3 For information, the assumption reflected within the Medium Term Financial Strategy approved by Council in February 2012 is that increases in council tax from 2013/14 will be 3% year on year across the medium term.
- 1.4.4 However, Members will no doubt be aware of the Government's proposal to freeze council tax in England for a further year in partnership with local authorities. 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.

- 1.4.5 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 local authority – **But** as the base against which future council tax increases would be made will be lower, there are hidden future implications that simply add to the overall savings we will have to make.

1.5 Business Rates Retention

- 1.5.1 Members will be aware that the current formula grant system is to be replaced by the Business Rates Retention scheme from April 2013.
- 1.5.2 For medium term financial planning purposes we have assumed that the business rates baseline attributed to us at the start of the scheme is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority will have to meet a share of that shortfall up to a maximum of circa £150,000 in 2013/14.
- 1.5.3 Furthermore, we also continue, for medium term financial planning purposes, to assume the New Homes Bonus in its current form will cease in 2015/16 by which time it is estimated to be in the order of £2.5 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.

1.6 Draft Capital Plan

- 1.6.1 A report elsewhere on this agenda seeks to advise Members of the way forward on the Capital Plan. This time last year Members also agreed a set of criteria 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. Justification will need to be provided where scheme proposals fail to meet one or more of the above criteria.
- 1.6.2 The Capital Plan review report recommends schemes for inclusion on List B, the short-list of schemes for possible inclusion in the Capital Plan. Members are reminded that the selection from List B, of schemes to be included in the Capital Plan (List A) – if any – will be made at Cabinet on the 5 February for endorsement by Council. With this in mind Members are advised that the revenue consequences, other than loss of investment income, of new capital schemes **have yet to be incorporated within the Estimates.**
- 1.6.3 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.

- 1.6.4 In setting the budget for 2011/12 that allowance was set at £350,000. In the Capital Plan report elsewhere on the agenda 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.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 Before the Borough Council determines the amount of its total estimated expenditure and makes calculations of its requirements for the ensuing financial year, it consults representatives of its non-domestic ratepayers about its expenditure proposals (including capital expenditure). 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. Any points of clarification required are dealt with by telephone, written correspondence or, if appropriate, an informal meeting with officers.
- 1.7.2 Any comments or representations received from the consultees will be reported to Members throughout the budget process.

1.8 Update of our Medium Term Financial Strategy

- 1.8.1 Members will recall that when setting the budget for 2012/13 in February 2012 projections at that time suggested a 'funding gap' between expenditure and income of **circa £2.54 million**. Based on the above projection it was further suggested that the savings target could be broken down into **four equal tranches of £635,000**. The **first tranche to be identified and implemented ideally by 1 April 2013**, the second tranche by 1 April 2014, the third tranche by 1 April 2016 and the final tranche by 1 April 2017.
- 1.8.2 Members may recall the report to Cabinet in November 2012 giving an update on progress in identifying and implementing the first savings tranche of £635,000 ideally before the 1 April 2013 and I am pleased to report that the savings identified thus far take us on or around the target set of £635,000.
- 1.8.3 **But** as mentioned in the November Cabinet report there are, as always, issues that take the 'funding gap' in the wrong direction. These include welfare reform, local council tax support scheme and cuts in government grant funding of more than that projected over the strategy period. This, in turn, increasing the savings target (the number and or size of the savings tranches).

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

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

1.8.5 Latest projections (which have increased slightly to those reported to Cabinet in November following the Chancellor’s Autumn Statement) would suggest that:

- If Members were minded to **increase the council tax by 2%**, the threshold set by the Secretary of State, the updated ‘funding gap’ (savings target) is circa £2.8 million. As in previous iterations of the Medium Term Financial Strategy we could breakdown the savings target into tranches. For example, in this scenario, the ‘new’ savings target could be broken down into four tranches (a first tranche of £900,000 followed by two equal tranches of £700,000 and a final tranche of £500,000) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20 respectively. Please note the increase may differ slightly due to the requirement to exclude the payment of any special levies from the calculation.
- If Members were minded **to implement the ‘freeze’** and accept the grant the updated ‘funding gap’ (savings target) is circa £3.1 million. In this scenario, the ‘new’ savings target could again be broken down into four tranches (a first tranche of £950,000 followed by two equal tranches of £750,000 and a final tranche of £650,000) to be achieved by 2014/15, 2016/17, 2017/18 and 2019/20 respectively.

1.8.6 It can be seen from the above that the implications of accepting the grant to freeze council tax as opposed to a council tax increase of 2% (the threshold set by the Secretary of State) adds £300,000 to the overall savings we have to make.

1.8.7 Clearly, the Medium Term Financial Strategy will continue to be updated as we move through the 2013/14 budget cycle and as more information becomes available. Members will note from this latest update that the projected funding gap is £2.8 million (increase in council tax 2%) or £3.1 million (council tax freeze) and which explains the comment in the report to Cabinet in November that:

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

1.9 Finance and Property Advisory Board

1.9.1 The draft Revenue Estimates were considered in detail at the meeting of the Finance and Property Advisory Board on 9 January where a number of officers were available to answer detailed questions.

1.9.2 It is not our intention to replicate the officer representation at this meeting and assume that Members will wish to focus on the strategic aspects of the Estimates rather than the detail. If Members do have detailed questions, please contact Neil Lawley, Chief Accountant on extension 6095 or by e-mail at neil.lawley@tmbc.gov.uk in advance of the meeting. Where appropriate, he will liaise with the relevant Services and advise accordingly.

1.9.3 The Finance and Property Advisory Board endorsed the draft Revenue Estimates as presented subject to the further deferral of the transitional increase in Members' allowances recommended by the Joint Independent Remuneration Panel and removal of the increased provision from the 2013/14 estimates.

1.10 Legal Implications

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

1.10.2 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.

1.11 Financial and Value for Money Considerations

1.11.1 As set out above.

1.12 Risk Assessment

1.12.1 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.

1.12.2 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.

1.12.3 As mentioned at paragraph 1.5.3 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.

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

1.13 Equality Impact Assessment

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

1.14 Recommendations

1.14.1 The Committee is requested to:

- 1) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 5 February.

Background papers:

Nil

contact: Sharon Shelton
Neil Lawley

Sharon Shelton
Director of 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.