

MAIDSTONE BOROUGH COUNCIL

CABINET

13 FEBRUARY 2013

REPORT OF CORPORATE LEADERSHIP TEAM

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1. BUDGET STRATEGY 2013/14 ONWARDS

1.1 Issue for Decision

- 1.1.1 This report brings together all the Revenue and Capital Budgets for 2013/14 with a view to recommending them to Council on the 27 February 2013 along with a proposed level of Council Tax.
- 1.1.2 The budgets outlined in this report incorporate the growth and savings agreed at the Cabinet meeting on 19 December 2012. The report also identifies issues emerging since that time and requests Cabinet to consider the issues in the context of the agreed Budget Strategy.
- 1.1.3 The report sets out the proposals for 2013/14 relative to the draft Medium Term Financial Strategy and the strategic revenue projection. The report gives further guidance on the financial position beyond 2013/14, the prospect for growth and savings and the delivery of a sustainable budget in the medium term.

1.2 Recommendation of Corporate Leadership Team

- 1.2.1 It is recommended that Cabinet :
 - a) Agree a final distribution of resources for parishes out of the LCTS scheme funding, from the options proposed in Appendix A or another method;
 - b) Agree the revised revenue estimate for 2012/13 as set out in Appendix C as modified, if necessary, by any actions agreed as a result of the Third Quarter Budget Monitoring Report for 2012/13;

- c) Agree the revenue estimate for 2013/14 including proposed savings as set out in Appendices C & D;
- d) Agree to recommend to Council that the minimum level of General Fund balances be maintained at £2m for 2013/14;
- e) Agree to set a level of working balances for day to day activity for 2013/14 of £2.3m;
- f) Agree to receive a future report on proposals to formalise the use of exceptional income receipts as set out in paragraph 1.12.5;
- g) Agree the proposal not to update the capital programme subject to any changes agreed in the Third Quarter Budget Monitoring Report for 2012/13;
- h) Consider options for the level of Council Tax and agree a recommendation to Council for 27 February 2013;
- i) Endorse the Medium term Financial Strategy as set out in Appendix F;
- j) Note the results of the budget consultation exercise and agree the inclusion of an explanation of the control mechanisms developed for prudential borrowing in the response to consultees;
- k) Agree to recommend to Council, for confirmation, the Council Tax Base and the Business Rates Yield as agreed by General Purposes Group;
- l) Agree to receive a report, once the requirements of legislation are clear, on the most appropriate process for approval of the Council Tax base and the Business Rates yield in future years;
- m) Agree to make the appropriate recommendations to Council regarding Council Tax requirement and the Estimates for 2013/14 based on the Cabinet decisions relating to this report's recommendations and as required by the Local Government Finance Act 1992 as amended by the Localism Act 2011.

1.3 Summary

- 1.3.1 The financial restrictions surrounding local government have lead inevitably to a time of major restraint on expenditure. It is clear from the Chancellor of the Exchequer's Autumn Statement that the restrictions will continue through the period of this medium term

financial strategy (MTFS). At the same time demand for services provided by the Council is increasing.

- 1.3.2 The MTFS is not a standalone strategy. Its main objective is, through integration with the other strategies of the Council, to ensure that resources are focused on the Council's priorities. The work on the MTFS to date, the other strategies and the previously identified risks are all set out in section 1.4 of the report. These risks include the loss of the 2012/13 Council Tax Freeze Grant and a need to identify savings to compensate and the predicted outturn for fees and charges in 2012/13.
- 1.3.3 Changes to national policy and guidance since the report considered by Cabinet in December 2012 have led to a worsening of the overall financial position of the Council. Key amongst these is the finance settlement which is a new method of distribution of resources from central government from 1st April 2013. Details of the settlement were distributed to Councils, by the Government, on 20th December 2012 following the announcement on 19th December 2012. The settlement is provisionally announced for two years and, including the loss of Council Tax Freeze grant, provides a 8.2% reduction in resources in 2013/14 and a further 13.3% reduction in 2014/15. The figures are set out in section 1.7.
- 1.3.4 The local council tax support scheme was agreed by the Council in December 2012 and will replace the national arrangements for Council Tax benefit, also on 1st April 2013. The first year's funding was announced as part of the finance settlement. The funding represents this Council's share of 90% of the Council Tax Benefit Grant distributed, based on 2011/12 values. Central Government have allocated this funding to cover the loss of Council Tax for the borough and parish councils in Maidstone. It does not cover the full cost of the new local scheme and the Government has used a simple but inequitable distribution method. In section 1.8, the report discusses if and how funding should be shared with parish councils.
- 1.3.5 Also commencing on 1st April 2013 is the new system of partial retention of business rates as set out in section 1.9. The finance settlement has set the level of business rates that the Council will retain as its baseline and this is £2.8m, only 5.7% of the business rates estimated for the borough area. The major risk from the new proposal is that the Council now shares the risk of non-collection, no matter the reason. The largest of the non-collection risks is the backdated and still outstanding list of valuation appeals. The level of risk is so significant that if the Government's Valuation Office was to settle all outstanding appeals in 2013/14 the estimate of the Council's share of the backdated refund would be as great as its baseline. In which case the Council would retain no resources from business

rates. This scenario is unlikely but all appeals will be settled at some future time and this future risks leads to the need to create a provision against the future loss. The provision will require funding from 2013/14.

- 1.3.6 The Council has prudently chosen not to support its revenue account by the use of balances to replace savings and efficiency required to achieve a balanced budget and this intention is clearly stated in the MTFS. Instead it has used balances to support strategic objectives through the funding of projects and initiatives that deliver, or improve the opportunity to deliver, those objectives. In this report the approach to the use of balances is considered and it is proposed to formalise the methodology so that future unallocated resources are utilised in a timely and effective manner. These issues are considered in section 1.12.
- 1.3.7 The Council's stated strategy on the level of Council Tax is to take a long term view of the need for resources and the effect on the budget, while identifying the need to agree a balanced budget annually. The Council has not increased the level of Council Tax since 2010/11 and has obtained Council Tax Freeze Grant funding from Central Government. The Government is offering a new arrangement at 1% per annum for two years. In 2013/14 the 2012/13 grant ceases and savings are required to finance the loss of resources. In 2015/16 the 2011/12 grant ceases and further savings will be required at that time. Due to the high level of risk because of the changes in funding arrangements and the low level of available resources, this report is based upon a maximum increase of 1.9%. Details of the options available should the Council wish to consider alternatives are set out in section 1.13.
- 1.3.8 The Capital Programme is considered in section 1.15. The Council's strategy on capital expenditure is to prioritise schemes based upon legislative need or fit to key priorities. One key tenet of the strategy is that resources must exist in advance of the commencement of any project or contract. The current programme is fully funded from resources that the Council already holds. However the programme only extends to 2014/15. Two essential strands of any future programme are the work on commercial activity, for which Council has given approval to prudential borrowing, and the infrastructure required to deliver the development plans of the Council. Further work is still required to ensure a stable and funded programme exists into the future as current resource levels cannot provide for all infrastructure needs and a programme to meet other objectives.
- 1.3.9 Taken together the considerations summarised above identify a significant level of change in the way the Council will receive or generate resource in the future. Many of the changes individually

bring significant financial risk, taken together as a series of changes occurring at one time they bring a greater risk to the Council than the sum of their individual risks. This is due to the additional risk that more than one event occurring in 2013/14 could produce a total financial consequence greater than the provisions the Council usually considers adequate. The Council must do all it can in 2013/14 to maximise resource while it gains experience of the new financial environment in which it is operating.

1.4 Reasons for Recommendation

- 1.4.1 At its July 2012 meeting Cabinet considered the initial budget strategy for 2013/14 onwards. It agreed a strategic revenue projection, a level of council tax for use in planning and consultation on the budget and the method by which consultation would be carried out.
- 1.4.2 The Corporate Services Overview and Scrutiny Committee's early consideration of the budget strategy led to the creation of a budget working group that considered the issues and advised the Committee in its later deliberations. At that time the Committee generally agreed with the approach put forward by Cabinet.
- 1.4.3 During 2012/13 Cabinet has received two quarterly budget monitoring reports considering the revenue account and other balance sheet issues for the end of June and the end of September 2012. The predicted outturn at that time was £0.4m. A third report is elsewhere on this agenda predicting a reduced outturn of £0.3m.
- 1.4.4 In the budget monitoring reports a number of issues have been identified to Cabinet, among them is a shortfall in the level of income from fees and charges. At the end of September 2012 this was predicted to have a full year effect of a £0.2m shortfall. By December the predicted outturn has been partly reversed by the revised planning fees announced late in 2012 by Central Government.
- 1.4.5 At its meeting on 19 December 2012 Cabinet considered a corporate review of fees and charges for 2013/14. This review was in line with the Council's policy on fees and charges. The agreed increases produced an overall estimated increase in income of £0.17m. This was incorporated into the budget strategy report considered later on the same agenda. Because of the previously identified risk of shortfall for some services, most fees and charges were not increased for 2013/14. The major element of the estimated increase comes from planning fees, which have benefitted from a Government set national increase.

1.4.6 At that same meeting, on 19 December 2012, Cabinet reconsidered the budget strategy and agreed a strategy for formal consultation with Corporate Services Overview and Scrutiny Committee in January 2013. Combined with the agreed increase in fees and charges discussed above, Cabinet agreed the following:

- a) That the provisional allocation of the local council tax support funding, as set out in Appendix A of the report of Corporate Leadership Team, be agreed and notified to parish councils along with their tax base.
- b) That the revised strategic revenue projection, as set out in Appendix B of the Corporate Leadership Team, which incorporates the changes outlined in sections 1.6 and 1.7 be agreed.
- c) That the proposed savings, as set out in Appendix C to the report of Corporate Leadership Team, be agreed.
- d) That the assumptions used in the development of the available resources as detailed throughout the report of Corporate Leadership Team be noted.
- e) That consideration of the use of the additional capital resources identified in paragraph 1.13.3 of the report of Corporate Leadership Team be deferred pending the final cost of the Museum East Wing project.
- f) That the Chief Executive, in consultation with the Leader of the Council, be given delegated authority to amend the detail of the Budget Strategy arising from the annual announcement by the Department for Communities and Local Government regarding local government finance.

1.4.7 It is the intention of this Budget Strategy to address the financial consequences of the government's actions to reduce the budget deficit in a sustainable manner. Over £3m in savings have been delivered since the spending review of 2010 and a similar level of savings, totalling £5.5m, is required over the five years of this strategy. Agreement to the proposals in this report can still deliver a balanced budget without the use of balances to finance long term commitments in 2013/14 but some future need for £3.2m of savings is not yet identified.

1.4.8 The budget strategy has been developed in parallel with the Cabinet's consideration of a number of other plans. In particular the budget strategy incorporates the following:

- a) The Strategic Plan – the budget strategy has been developed in parallel with the revision to the strategic plan. The medium term financial strategy has been produced to ensure the efficient use of the Council’s resources in delivering the strategic objectives.
- b) The People Strategy – budget provision is included for expected employee costs.
- c) The Asset Management Strategy – the budget requirements identified in this strategy have been previously included within the budget strategy and have been maintained for 2013/14 onwards at their current levels. The asset management strategy recognises the pressure on the capital programme from the need for future funding and assesses options for the appropriate utilisation of assets, the pressures upon the capital programme are considered as a complete package and not as individual schemes. At this time the budget strategy does not consider the capital requirements beyond 2014/15.
- d) ICT Strategy – the resources for this strategy are limited but some resources for developments in ICT remain available. The exact nature of the strategy and the arrangements for the use of resources for the ICT Strategy are currently evolving as the MKIP Shared Service commences across Maidstone, Swale and Tunbridge Wells Councils.
- e) Strategic Risk Register – the strategic risks are reviewed regularly by Audit Committee and Cabinet and have been fully updated for 2013/14 onwards. The funding for actions within the risk actions plans are, where appropriate, incorporated into the budget strategy.
- f) Other Strategies – appropriate resources to aid various other strategies are incorporated into the budget strategy. These include strategies for areas such as Regeneration and Economic Development, Climate Change, Equalities, Regeneration, Integrated Transport and Community Development.

1.5 Corporate Services Overview and Scrutiny Committee

- 1.5.1 The Committee, at its meeting on 8 January 2013, debated both the budget strategy decision and the fees and charges decision made by Cabinet on 19 December 2012. The committee considered all aspects of both reports and the Council’s ability to produce a balanced budget.
- 1.5.2 The Committee’s conclusion was that the reports were a comprehensive assessment of the current situation and the Cabinet

decisions represented an effective means of producing a balanced budget and securing the Council's financial standing in the medium term.

1.6 Audit Committee

1.6.1 The committee, at its meeting on 14 January 2013, debated the operational risk analysis of the budget strategy. This risk analysis forms part of the Finance Section's service plan and the individual elements do not represent strategic risks. The committee debated the risks and felt they were a comprehensive list.

1.7 The Finance Settlement

1.7.1 The finance settlement was announced in Parliament on 19 December 2012 however the Council did not receive specific details of its own settlement until the 20 December 2012. It was not possible to update Cabinet of the provisional figure from Central Government for revenue support grant and the retained business rates baseline until now.

1.7.2 The figures provided as part of the settlement are given in the table below and were confirmed on 4th February 2013. The figures given in the table are gross payments and part of the LCTS funding is identified by the DCLG as provided for support to parish councils. In considering the budget strategy report presented to the Cabinet on 19 December 2012, Members agreed to a provisional distribution to parish councils, which is considered further below. An adjustment to deduct the final value agreed for distribution by the Council will need to be made to the figures for 2013/14 so that they can be used in the strategic revenue projection.

	RSG	Baseline	Total	Year on Year
2013/14	£,000	£,000	£,000	Reduction
				%
BASIC GRANT SETTLEMENT	3,146	2,092	5,238	8.2
COUNCIL TAX FREEZE 2011/12	202	133	335	
HOMELESSNESS PREVENTION	60	41	101	
LCTS SCHEME FUNDING	874	581	1,455	
	4,282	2,847	7,129	
2014/15	£,000	£,000	£,000	
BASIC GRANT SETTLEMENT	3,048	2,755	5,803	13.3
COUNCIL TAX FREEZE 2011/12	196	139	335	
HOMELESSNESS PREVENTION	60	41	101	
	3,304	2,935	6,239	

- 1.7.3 Cabinet should note that the total sum of both RSG and Business Rates for 2013/14 is £0.15m greater than the sum estimated in the strategic revenue projection presented to Cabinet on 19 December 2013. This contrasts with a sum that is £0.14m less than estimated for 2014/15. As a consequence of the 2014/15 reduction it is proposed in this report to make no specific plans for the use of the additional resource in 2013/14. In developing the strategy for this report officers have amended the timing of proposed savings so that some proposals that had supported 2013/14 now support 2014/15.
- 1.7.4 Members may wish to note that the Corporate Services Overview and Scrutiny Committee were advised of the settlement figures and the proposal to adjust the timing of some saving planned for 2013/14 at their meeting on 8 January 2013. The Committee did not object to the principle set out or propose an alternative action for Cabinet to consider.
- 1.7.5 Members should note that two issues remain unresolved that have a minor effect on the values used to formulate the budget figures set out in this report.
- a. The element of the government funding for the LCTS scheme is reduced from £1.455m to £1.365m by the amount calculated for support to parishes, as considered by Cabinet on 19 December 2012, and is subject to change as set out in section 1.8 below.
 - b. The Council intends to apply for transitional grant as the LCTS scheme agreed by Council meets the Government's criteria and this would provide an additional £38,000 in funding if the Council is successful.

1.8 Local Council Tax Support Scheme - Arrangements for Parish Councils

- 1.8.1 As part of the finance settlement the Government provided partial funding for the Local Council Tax Support (LCTS) scheme. This funding is identified separately in the finance settlement for 2013/14 as £1.455m. The Government has stated that the funding passed to district councils includes funding for the effect of the LCTS scheme on parish council tax bases.
- 1.8.2 As part of Cabinet's considerations on 19 December 2012 a proposal for sharing the total funding across all councils, which was distributed according to loss rather than precept levels, was reported. The calculated amounts were then provided to parish councils along with their tax base figures to assist them in calculating the precept they required.
- 1.8.3 The figure announced in the finance settlement is less than the figure assumed in the 19 December 2012 report which was estimated at £1.463m. Therefore the calculation needs to be adjusted. In addition the Government's announcement split the total sum of £1.455m into two elements one for the borough council and the other for parishes based upon precept levels.
- 1.8.4 By using precept levels to apportion the funding, the Government has used an available but inequitable method of apportionment. Should the Cabinet wish to distribute the announced share based upon precept levels a complication would arise. Although the total distributed to parishes would increase, some parishes would lose out relative to others and the borough council would also lose out. This happens because the loss of council tax from the new system is related to the number of working age claimants of LCTS in an area and not the precept. Where there is a high level of working age claimants, then the distributed support would not be adequate to cover the loss equitably.
- 1.8.5 The values received by each Council under the original apportionment method set out in the report of 19 December 2012 have been updated to distribute £1.455m and at this level all councils receive support of 93.7% of their total loss. In addition the Government proposal has been calculated down to individual parishes and the loss or gain is variable.
- 1.8.6 The figures for each parish and the borough are given in **Appendix A** for consideration and comparison. However choosing, as examples, two of the more extreme values under the Government's proposal.

- a) Tovil Parish Council only receives 75% through this method of funding. Losing in total £2,110.
- b) Boxley Parish Council receives 155% through this method of funding. Being in surplus by £4,933.

1.8.7 Cabinet will need to propose an apportionment method for inclusion in the budget that will be recommended to Council. It could be either method set out in the report or another method of their choosing. The finance settlement is not ring-fenced and Government have not legislated for the Council to pass on any support to parish councils. The Government has indicated that it would expect some form of support to parish councils.

1.9 Business Rates – Estimated Yield

1.9.1 The finance settlement outlined in section 1.6 set out the baseline funding level for retained business rates at £2.85m. This is the level of assessed need for this Council. Based on Central Government’s assumptions about this Council’s share of total business rates collected nationally. In detail the Government has set the following values by apportioning their national calculation:

Authority	Share %	Amount £	Tariff
Government	50	27,010,106	
Maidstone - split:	40	21,608,085	
Less Tariff			18,760,179
= Retained Value			2,847,906
Kent County Council	9	4,862,820	
Kent Police	1	540,200	
Business Rates Assumed Yield		54,021,211	

1.9.2 At General Purposes Group on 30 January 2013 the Committee considered the Council’s own estimate of Business Rates yield for 2013/14 and the figures approved by the Group are as follows:

Authority	Share %	Amount £	Tariff
Government	50	27,457,771	
Maidstone - split:	40	21,966,217	
Less Tariff			18,939,245
= Retained Value			3,026,972
Kent County Council	9	4,942,399	
Kent Police	1	549,155	
Business Rates Assumed Yield		54,915,542	

1.9.3 The values are greater than the sums calculated from the government’s national assumptions and therefore indicate growth in yield. The estimate of the growth that would be retained is £0.18m

and this is shown within the retained value in the table above. However the yield approved by General Purposes Group includes sums relating to valuation appeals that remain outstanding with the Government's Valuation Office. These appeals date back over the last eight years and, under the new system, present a financial risk to the Council. While the income previously collected from the businesses has been passed to Central Government in previous years, successful appeals will mean that there will be a charge against the current year's business rates yield to cover the backdated refund. This Council's share of any refunds paid will be 40% of their total value.

1.9.4 The Valuation Office has provided data that suggests the potential value of refunds could be as great as £6.5m and this Council's share could be as great as £2.6m. While successful appeals decided by the valuation officer in 2013/14 will probably not represent all outstanding cases, proper accounting practice and prudent financial control would require the Council to set aside a provision for the risk at a maximum of £2.6m.

1.9.5 This risk leads to the conclusion that while the business rates yield suggests a potential for this Council to receive growth of £0.18m a need to set aside a provision of up to £2.6m means that at this time it would not be prudent for the Council to budget for the use of this potential business rates income for any other purpose. The appropriate treatment of backdated refunds is still the subject of dialogue with Central Government and officers will advise Members of any changes to national guidance at the meeting.

1.10 The Strategic Revenue Projection

1.10.1 The strategic revenue projection (SRP) is given at **Appendix B** and has been updated to account for the changes that have been identified in this report as occurring since the Cabinet meeting on 19 December 2012.

1.10.2 The effect of the changes on the strategic revenue projection is to reduce the need to identify savings in 2013/14 but to increase the need in 2014/15. Savings required for 2013/14 now total £0.988m however the target for 2014/15 has increased to £1.787m.

1.10.3 For 2013/14 the strategic revenue projection assumes a Council Tax increase that is just below the threshold for a referendum, at 1.9%. This assumption is in line with Cabinet's agreed planning assumption of 2%. The reason for the 0.1% variance is the effect of the Upper Medway Internal Drainage Board's levy on the referendum calculation.

1.10.4 Should Cabinet choose to recommend to Council no increase, in line with the Government's current council tax freeze proposal, then the strategic revenue projection would require an amendment that would result in additional savings of £0.12m in both 2013/14 and 2015/16. This issue is covered in more detail in section 1.12.

1.10.5 For future years the strategic revenue projection uses the current value of a 1.9% increase each year.

1.11 Revenue Estimates

1.11.1 A summary of the revenue estimate by portfolio is attached as **Appendix C**. This also summarises the approved use of balances. This estimate assumes the final approval of all growth and savings set out in the SRP and savings detailed in this report. The estimate is based upon the funding available from a 1.9% Council Tax increase. Any alternative decision will require amendment to the revenue estimates as set out above.

1.11.2 Details of the savings proposals, as amended following the finance settlement, are given at **Appendix D**.

Revised Estimate 2012/13

1.11.3 The revised estimate 2012/13, given in Appendix C, totals £23.919m. This compares to an original estimate of £20.043m as approved by Council in March 2012. The increase reflects the decisions of Cabinet to approve the carry forward of resources from 2011/12 of £3.876m.

Original Estimate 2013/14

1.11.4 The estimate 2013/14, given in Appendix C, shows a cost of service estimated at £19.525m. After net contribution to balances of £0.05m, the budget requirement for 2013/14 will be £19.575m including a 1.9% Council Tax increase.

1.11.5 Cabinet will recall that the budget, as proposed in this report, has been based on a number of initiatives completed during the year. These include:

- a) A refresh of the strategic plan that includes a clearer analysis of the outcomes deliverable in the medium term and a prioritisation of the actions required.
- b) A budget consultation exercise to identify public opinion on the importance to the public of services considered low priority to Cabinet and the importance of a range of customer service levels.

- c) A longer term focus from the recognition that the financial year 2013/14 will see the commencement of a spending review to support the Government's objectives up to the next general election. In addition the Chancellor of the Exchequer has made clear in his Autumn Statement that there is expected to be further public sector spending reductions that will effect local government to a similar level as those announced at the time of the 2010 spending review.

1.12 Statement of Balances

1.12.1 Attached as **Appendix E** is a statement of the General Fund Balances. The statement identifies in detail the agreed use of balances arising from the 2012/13 budget, approved by Council in March 2012, and subsequent Cabinet decisions. Cabinet will recall that it agreed a reserve in relation to the potential level of overspend on the Museum extension contract. This reserve is not shown in Appendix E but is comfortably within the estimate of unallocated balances at 31 March 2014, of £3.1m.

1.12.2 During the development of the medium term financial strategy for 2013/14 onwards there has been two proposals for the future use of balances.

- a) The creation of a provision to support the commercialisation work of the Council. The sum considered is £0.5m and will only be called upon if a commercial activity does not generate the expected return and the resources are required to maintain repayments on any prudential borrowing associated with the scheme; and
- b) Support to parish councils who provided footway lighting through concurrent functions in 2011/12, for one further year. This will allow time for adoption by the County Council or other actions by the parish and will cost this Council approximately £30,000.

1.12.3 It is necessary at this time for Cabinet to consider the level of working balances it wishes to set for operational purposes. There are two levels set:

- a) The first is a practical minimum below which Cabinet cannot approve the use of balances without agreement of Council. In the past this has been set at 10% of net revenue spend, which equates to £1.96m. However in recent years, as net revenue expenditure has declined due to Government reductions in public sector spending, the balance has been retained at £2m.

It would be prudent to continue at this level and Cabinet is recommended to propose this level to Council;

- b) The second is an operational minimum, set for daily use of balance by Cabinet. In the past this has been £0.3m greater than the Council set practical minimum. This would be £2.3m and it is recommended that Cabinet set this operational minimum.

1.12.4 In recent years the Council has been successful in identifying and achieving income from exceptional opportunities. One example is the VAT declared and paid on a range of services for which HM Revenue and Customs were obliged to give refunds in 2010/11. Other examples include the 2011/12 gain from early delivery of savings from shared services and other restructures. Such events are expected in the future with possible gains from successful commercial activity and shared benefit from contractual arrangements such as surpluses from contracts currently being let.

1.12.5 While these resources are much needed and are able to benefit the Council's strategic objectives, there is an issue of the Council's ability to react in a timely and efficient way when resources are unexpected. The recent work on the use of balances available from 2011/12 evidences that such resources can be effectively focused on achieving the Council's priorities. Although this was achieved it was not in a timely and efficient manner. It is proposed that Cabinet consider options to formalise the use of such resources to make the process more efficient. Possible means could include pre-agreed programmes of work. The report recommends that Cabinet agree to consider options regarding this issue in a further report.

1.13 Council Tax Levels

1.13.1 The strategic revenue projection given at Appendix B is developed in accordance with the previous planning decisions of Cabinet and includes a 1.9% increase in Council Tax.

1.13.2 Acceptance of the government offered Council Tax freeze grant by recommending a zero percent increase in Council Tax is an option available to Cabinet. However the action would require additional savings of £0.12m in both 2013/14 and 2015/16. This is because the offered grant is only equivalent to a 1% increase in Council Tax but is available for two years.

1.13.3 The consequences of accepting the Council Tax freeze grant in 2013/14 would create an additional budget pressure for all future years. This pressure would be £0.25m by 2015/16 and the Council Tax income foregone would compound at that level plus any annual

increase. Assuming a 1.9% increase, this would equate to £2.7m in ten years.

1.14 Strategic Assessment of the Revenue Estimate

1.14.1 The revenue estimate for 2013/14 as detailed in this report requires net resources of £19.575m. This can be balanced by a 1.9% increase in the Council Tax charged, as detailed in the table below:

	£
Revenue Support Grant	4,280,809
Retained Business rates	2,847,906
Less: Parish LCTS Support	-84,695
Council Tax at £222.39 (Band D), tax base 55155.1	12,265,942
1.9% Council Tax Increase (£4.23 @Band D)	233,055
Collection Fund Adjustment	32,033
TOTAL AVAILABLE RESOURCES	19,575,050

1.14.2 Should Cabinet wish to consider an alternative approach, a 1% change in Council Tax charged is equivalent to a change in resources available of £123,000. Cabinet should be aware that Council Tax freeze grant is absolute and offered only where no increase occurs. It cannot be claimed proportionate to any increase that is less than 2%.

1.15 Capital Programme

1.15.1 The budget strategy incorporates estimates for both revenue and capital expenditure. Attached at **Appendix F** is the approved capital programme for the period 2012/13 to 2014/15.

1.15.2 Elsewhere on this agenda the Budget Monitoring Report to December 2012 includes a recommendation on slippage of scheme budgets between 2012/13 and 2013/14. If this proposal is agreed by Cabinet the programme outline in Appendix F will be updated before the recommendation to Council is prepared. Cabinet should also note that the programme is subject to growth up to the level agreed as a maximum for funding increased costs in relation to the Museum's East Wing development.

1.15.3 It is normal at this time to bring forward proposals to extend the programme for further years up to 2017/18. A significant number of the likely schemes that would be brought forward for amendment or extension to the programme are under consideration as part of the infrastructure delivery plan (IDP) as a component part of the Core Strategy.

1.15.4 The work on ensuring the accuracy of the IDP must be completed as an essential first stage. Funding of any schemes, arising from the IDP and forming elements of any future capital programme, will be partly

achieved by the setting and charging of a community infrastructure levy. In order to set this levy accurately the work on the IDP must be completed.

- 1.15.5 At this time it is recommended that no change to the programme be made but to note that extensive work on prioritisation of schemes and the identification of funding will be required during March 2013 to prepare the Council to charge the community infrastructure levy required to make the IDP affordable.

1.16 Consultation

- 1.16.1 In recent years Cabinet has taken a coordinated approach to the views it has sought during consultation. This has been done with the intention of building a body of knowledge of opinions on various elements of the budget.
- 1.16.2 ring the development of the 2009-10 budget strategy the consultation was through a budget simulator to allow respondents to create their own budget and asked them to achieve a council tax increase below 5%. The choices available for growth or savings were larger key service areas that most respondents displayed a desire to protect, such as refuse and street cleansing.
- 1.16.3 During the development of the 2010-11 budget strategy the consultation was carried out by formal market research. This research focused on income generating services through consideration of price and elasticity of demand. Questions included the preference for payment for services by council tax or by direct fee at time of use.
- 1.16.4 During the development of the 2011-12 budget strategy members and officers completed comprehensive public engagement under the banner of "My Council, What Matters to ME" which reviewed opinion on discretionary services and Cabinet's proposals for savings. It also gave an opportunity for respondents to put forward further ideas for consideration.
- 1.16.5 Consultation on the 2012-13 budget followed a similar format requesting ideas for savings beyond those already identified and an evaluation of seven statutory services that were not placed as high priority in the Cabinet's priority matrix. The consultation looked at the potential for from variations in the level of customer service.
- 1.16.6 Two consultations have been carried out during the 2013-14 budget strategy process. The results of the consultation on the localisation of council tax support were reported to Cabinet in November and the Council agreed a local council tax discount scheme in December 2012.

1.16.7 Consultation on the budget is usually completed between October and November but consultation on the budget for 2013-14 was delayed until January 2013, to avoid any confusion with the localisation of council tax support consultation. The consultation on the budget sought views on the Cabinet's proposals for savings, specifically whether the council should provide services directly itself or through voluntary, business and charity organisations, and whether the Council should provide profit making commercial services and borrow money to cover the start up costs of them. Residents were also asked how they wanted to contact the council.

1.16.8 The results of this consultation are attached at **Appendix G**. The results show that:

- a) There are good levels of support for the Cabinet's proposals to look to provide more services through voluntary, business and charity organizations and to provide commercial profit-making services.
- b) there is less support for the proposal to borrow money to cover the start up costs of commercial services. Cabinet is recommended to agree that the previously agreed measures and controls on this activity are included in the responses to consultees and publication of the results of consultation.
- c) Cabinet should also note the confirmation of the Council's channel shift strategy in the responses to the question on methods of contacting the Council and requesting services, for which the highest response was for the use of electronic means including the website.

1.17 Approval of Tax Base and Business Rates Yield

1.17.1 As detailed in this report new local government finance arrangements are being introduced from 1 April 2013. These cover the tax raising and collecting processes of the Council. The setting of the Council Tax and now the calculation of the business rates yield are set out in statute and the procedure at this Council is set out in the constitution.

1.17.2 Some local authorities have raised questions about the legislative basis upon which the Tax Base and the new Business Rates Yield figures are calculated and approved. Set out in the new statutory instrument for the calculation of the tax base there is a need for the calculation to be agreed only by the Authority. The business rates yield calculation would appear to require the same approval process as the tax base.

- 1.17.3 The Council's constitution delegates authority to approve the Tax Base to General Purposes Group and they approved the figures at their meeting on 19 December 2013. Following the same process for the Business Rates Yield meant that this was presented to General Purposes Group on 30 January 2013.
- 1.17.4 Having obtained and considered the advice of the Head of Legal Services on this matter it is felt to be necessary to request of Council that they "confirm" the figures approved by General Purposes Group and used in this report to set the budget for 2013/14. The Head of Legal Services also believes that, once the Government's intention is clear, a further report to amend the constitution to meet the requirements of the new local government finance regime may be required.
- 1.17.5 At this time it is recommended that Cabinet recommend to Council to confirm both the Council Tax base and the Business Rates yield for 2013/14 as considered and approved by General Purpose Group.
- 1.18 Future Actions to Set the Council Tax
- 1.18.1 As Members will be aware, it is a statutory requirement of this Authority to resolve the level of Council Tax for the area. To achieve this objective the recommendations detailed in this report need to be addressed. In addition the precepts of Kent County Council, the Police Authority, the Fire Authority and all parish councils are required. These will all be incorporated into a resolution to the Council meeting on 27 February 2013.
- 1.18.2 It is the intention to collate the decisions from this meeting and incorporate them into the necessary resolutions to achieve the above in time for the Council meeting on 27 February 2013.
- 1.18.3 In addition it is necessary for the section 151 Chief Financial Officer to give her opinion to Council, when setting the above requirements, that the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise. Based upon the process undertaken this year, and the information contained within this report, it is not anticipated that this opinion will include any adverse comments.
- 1.19 Medium Term Financial Strategy
- 1.19.1 Attached as **Appendix H** is the Medium Term Financial Strategy (MTFS). The strategy is focused on the period of the spending review, with a fifth year to incorporate the consequences of the actions taken within the spending review period.

- 1.19.2 The financial projection that complements the MTFS is given at Appendix B. It summarises the growth and savings items detailed in Appendix D. The financial projection considers the targeted need for growth and savings over the period of the MTFS and incorporates a number of assumptions about inflation and changes in local and national initiatives. These are all detailed in the MTFS statement given at Appendix H.
- 1.19.3 The MTFS may require amendment following Cabinet's consideration of this report and following consideration by Council on 27 February 2013. The final version will be published as part of the budget documents on the Council's website following the Council meeting.
- 1.20 Alternative Action and why not Recommended
- 1.20.1 The major alternatives are included within the report for consideration
- 1.20.2 Cabinet could recommend to Council the setting of a Council Tax level greater than that used as a planning assumption in the strategic revenue projection. The Department for Communities and Local Government has announced that the level of increase that would be expected to trigger a local referendum on Council Tax increases is 2% for 2013/14. Allowing for the influence of levying bodies, the Council could only agree an increase up to the level currently proposed without triggering a referendum. This is below both RPI and CPI inflation measures.
- 1.20.3 Any increase above the level of 1.9% would most likely incur the need to carry out a referendum and result in a reduction in the level of Council Tax and additional cost to the Council.
- 1.20.4 The setting of a balanced budget is a statutory obligation. To choose not to set a budget and a Council Tax level for 2013/14 is not an option.
- 1.21 Impact on Corporate Objectives
- 1.21.1 The capital and revenue budgets developed from this budget strategy provide resources for the achievement of corporate priorities and have been developed in conjunction with the refresh of the Strategic Plan.
- 1.22 Risk Management
- 1.22.1 The budget process is a major element of the mitigation of the strategic risk on having the right resources available to achieve the

Council’s priorities. The robust process followed, along with the Council policy to deliver a balanced budget, ensures that the budget produced is appropriate for the delivery of all council services.

- 1.22.2 The policy on balances addresses the strategic risk of budget pressures arising from unbudgeted spend or the financial consequences of unplanned costs.
- 1.22.3 The key risks identified during the budget strategy process and in this report are detailed in the risk assessment attached as **Appendix I**. The risk assessment has been considered, amended and approved by Audit Committee in the format given in the appendix.

1.23 Other Implications

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	X
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.23.1 Financial Implications – These are dealt with comprehensively in the body of the report.

1.23.2 Staffing Implications – The current budget provides the resources necessary to fund the proposed staffing levels and support the Government’s public sector pay strategy.

1.23.3 Legal Implications – The Localism Act 2011 and the review of local government finance have introduced a number of changes to the recommendations to Council for setting the Council Tax and agreeing a balanced budget for 2013/14. These changes are the subject of national discussion and the most up to date guidance will be used at the time required to produce the report to Full Council. In other

respects this report and the recommendations it proposes will enable Council to set a balanced budget and a Council Tax within the time limits and other constraints of legislation.

1.24 Relevant Documents

1.24.1 Appendices

- Appendix A - Apportionment of LCTS Funding
- Appendix B - Draft Strategic Revenue Projection
- Appendix C - Draft Budget Summary 2013/14
- Appendix D - Savings Proposals 2013/14 to 2016/17
- Appendix E - Statement of General Fund Balances
- Appendix F - Draft Capital Programme 2013/14 Onwards
- Appendix G - Consultation Responses
- Appendix H - Draft Medium term Financial Strategy
- Appendix I - Detailed Risk Assessment

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

This is a Key Decision because: Budget Strategy Report

Wards/Parishes affected: All