COUNCIL – 23 FEBRUARY 2010

COUNCIL TAX SETTING

Report of the: Deputy Chief Executive & Director of Corporate Resources

Status: For Decision

Executive Summary:

This report sets out the factors that need to be considered in order to set the Council Tax for 2010/11 and to approve the 2010/11 budgets. These factors include:

- Precepts received from other authorities;
- Collection Fund position;
- Corporate Budget Update; and
- Opinion on the robustness of the budget and the adequacy of the reserves.

Below inflation funding from Government compounded by the economic climate means that the Council continues to face more uncertainty around its financial position than in previous years.

At the time of writing this report, the figures relating to the major precepting authorities were not available, as their formal meetings also take place during February. Appendices 1 and 2 will be sent to Members on 19 February, after the final preceptor meeting.

This report supports all the Council's key themes and objectives.

Portfolio Holder Cllr. Ramsay

Head of Service Head of Finance and HR – Mrs. Tricia Marshall

Recommendation:

Due to their length and complexity, the recommendations have been produced as a separate document (Appendix 2).

Latest Information on Precepting Authorities

1 A list of parish and town council precepts is attached at Appendix 1 *(to follow on 19 February)*. The tax base figures are those calculated and approved at the Cabinet meeting on 21 January 2010.

2 The Kent Police Authority meets on 10 February, Kent County Council on 18 February and the Kent Fire & Rescue Service meets on 16 February to agree their budgets.

Collection Fund Surplus/Deficit Calculation

3 Rules governing the operation of the collection fund require me to make an estimate on 15 January (or the next working day) each year of the fund's likely difference at the end of the current financial year, in respect of council tax transactions. The amount so estimated is to be shared between the District Council, County Council and Fire and Police Authorities in proportion to their precepts on the collection fund. Each authority's share is to be taken into account by the authority in calculating its council tax for the year following the year in which the surplus or deficit has been estimated.

4 The actual deficit balance on the collection fund at 31st March 2009 was £46,000. The actual balance is relatively small in the context of the gross council tax collectible during 2008/09 of £71m (0.06%).

5 My calculation at 15 January 2010 estimates a nil balance on the collection fund at 31 March 2010. This is based on the tax bills issued for the year, current collection performance and the level of bad debt provision held. This position is being taken into account in Cabinet's consideration of the budget on the 18 February 2010.

District Council Budget

6 Detailed corporate budget figures are being considered by Cabinet at its meeting on 18 February 2010:

- Capital Programme and Asset Maintenance 2010 to 2013 (see Appendix 3);
- 2010/11 Prudential Indicators and Annual Investment Strategy (Appendix 4); and
- Revenue Budget and Council Tax 2010/11 (including the Financial Plan 2009/10 to 2015/16) (Appendix 3).

The revenue budget process included consultation with the Select Committees during the Autumn of 2009 and January and February 2010. The Performance and Governance Committee is considering the Annual Investment Strategy at its meeting on 16 February and will report any comments to the Cabinet meeting on 18 February. The Investment Strategy has also been considered by the Finance Advisory Group.

7 Revised versions of the financial summary documents will be circulated with the Council recommendation, if required, to take into account:

- Decisions made by Cabinet on 18 February; and
- Precepts set by the County, Police and Fire authorities.

Opinion under the Local Government Act 2003 (LGA 2003)

8 Under the LGA 2003 the Statutory Finance Officer (Deputy Chief Executive and Director of Corporate Resources) is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves.

9 In terms of the robustness of the budget, the following sources of assurance should and were taken into account:

- The refined Strategic Business and Financial Planning process used for the 2010/11 budget, with clear links to the Sustainable Community Action Plan 2007/10, the Council's Vision and other key corporate plans.
- The development of a Medium Term Financial Strategy, including 10-year modelling, clear financial objectives, sensitivity analysis and the existing 4-year savings package.
- Scrutiny of proposed changes by the Select Committees.
- The strong financial control structure and effective performance management within the Council, confirmed by the Use of Resources assessment.
- Clear budget responsibilities at individual officer level.
- Effective monitoring regime giving early notification of potential financial issues through the use of the specialist Finance Advisory Group.
- Effective Internal/External audit system, with risk-based audits, reporting through the Performance and Governance Committee.
- Set aside of earmarked funds for potential liabilities in the medium term.
- Effective strategic and operational risk management.

10 There are a number of risk factors within the 2010/11 budget proposals; these are set out in some detail in Appendix G to the Budget report to 18 February Cabinet. Some of the more significant items are set out below.

a) <u>Pay costs (£14,910,000)</u>

Pay costs are budgeted on 100% basis, with a separate vacancy target saving of £100,000. With controls over the appointment of any staff and monitoring of staff numbers as well as costs, pay costs are subject to a high level of control.

The national pay award for 2010/11 has not yet been agreed so there is uncertainty over the level of increase for next year. The budget assumes a nil increase. The National Local Government Employers Organisation announced on 20 January that they were unable to offer any increase in pay for 2010/11.

Staff turnover reduced significantly in 2009/10 and the vacancy target saving will not be achieved. It is expected that, due to the recession, staff turnover could remain low in 2010/11. The target saving has been set at £100,000, a reduction on the previous year's figure.

b) Achievement of Savings (£1,182,000 planned for 2010/11)

The overall level of planned savings is relatively large at £1.2m in 2010/11 or 7.1% of the net budget for that year. The main risk items are those which rely on third parties or the generation of additional income. Close budget monitoring including prompt corrective action will be essential. In recognition of the uncertainty surrounding the achievement of partnership savings, it is recommended that any underspend on the 2009/10 revenue budget be put to a Budget Stabilisation Reserve, to be used to meet any one-off shortfall in the achievement of such savings in 2010/11.

c) Income

In the build-up of the budget there are a number of major income streams with risks attached, including:

- Car parks and off street parking (£2,529,000)
- Land Charges (£202,000)
- Development Control (£563,000)
- Building Control (£499,000)

The last three are particularly dependant on local economic and market fluctuations. The Land Charges income budget was reduced substantially for the current year. For both Development Control and Building Control, the income budgets have been reduced for 2010/11 (with offsetting reductions in expenditure) to reflect the lower level of income likely to be received. In addition, in-depth monitoring of these budgets will continue throughout the year and will be given regular consideration by the Finance Advisory Group.

d) Non pay costs

The Plan assumed an average inflation rate of 2.5% for non-pay costs. At January CPI was 2.9%, in addition the low value of the pound increases the cost of items such as software that are priced in dollars. Over the past year the Council has been reviewing its procurement practices and the budget assumes that savings will be made through smarter procurement in 2010/11.

e) External Funding

Exit strategies are in place for when funding ceases.

f) Local Development Framework

Revenue contributions to the Earmarked Reserve for this project total £140,000 a year. Projected costs have been put together as the national requirements develop. This contribution level is sufficient based on current projections but there is considerable uncertainty over major cost items such as examinations by the Planning Inspectorate.

g) Superannuation Reserve

The Council's long term financial modelling and scenario analysis shows that the Council's current level of set aside funding to address the Pension Fund deficit is inadequate after four years. An early strategy to address this is essential and will be considered during 2010/11, along with the outcome of the revaluation of the Fund in April.

h) Investment Receipts (£192,000)

Interest rates have remained low in 2009/10 and are not expected to increase until at least the end of this calendar year. The Council is only making short term investments in the present market conditions; this does make it more vulnerable to interest rate fluctuations. The proposed investment receipts budget for 2010/11 has been reduced by £136,000 when compared with the previous year's Financial Plan and the Investment Strategy will be kept under review and brought back to Members for consideration as necessary during the year. The proposed Strategy for 2010/11 is attached at Appendix 4.

i) Capital resources to fund the Capital Programme

Due to the level of uncertainty in the current economic climate it is difficult to predict the level of capital receipts that will be achieved in 2010/11. The Capital Programme is based on 75% of anticipated receipts being received and includes no receipts from the Blighs development. The anticipated receipts for 2010/11 are £785,000, but it must be emphasised that there is considerable uncertainty over the value and timing of these receipts. As part of this year's budget the Council has set aside ongoing revenue contributions to Capital of £456,000 (increasing to £480,000 from 2011/12). This improves the sustainability of the Capital Programme and reduces reliance on a dwindling pool of capital receipts.

The Council has requested that Kent County Council provide a breakdown of the costs of constructing Edenbridge Relief Road. Until this is received and ongoing discussions with KCC concluded it remains uncertain what the final cost of the scheme will be. The Council holds a provision of £1.5 million to meet these costs.

j) Asset Maintenance

With the size and nature of the council's major assets (leisure centres, Central Office) there will always be some risk of unforeseen maintenance issues. Given the size of the current earmarked reserve, any such problems should not have an immediate direct impact on the revenue account. Furthermore, the Portfolio Holder has undertaken a review of this area, and has identified a number of efficiencies and financial solutions to improve its sustainability.

k) Impact of economic climate

In my earlier reports on the budget I have highlighted the possible impact on the Council's finances of the current recession. Many of the risks are set out above, but there has also be an impact on the Council through increased demand for services such as Benefits and Housing.

11 Members will recognise that budget risk cannot be avoided completely. However, the structures already in place and the actions being put in place should ensure that next year's overall revenue spend figure is achieved, particularly through the Council's flexible approach to budgeting allowing the risk areas to be compensated by those that are under-spent or overachieve on income.

Adequacy of Reserves

12 The Revenue Budget report submitted to Cabinet on 18 February includes a "Review of Reserves Statement" (Appendix F to that report). This review should ensure that all provisions and earmarked reserves are adequate for their purposes.

13 The key issue on which comment must be made relates to the General Fund Reserve:

	£000
Actual balance 1st April 2009	3,713
Estimated balance 1st April 2010	3,444
Proposed balance 1st April 2011	3,444

14 The Council also has a low Capital Receipt balance. This is an issue for the future financing of any capital investment in the longer term.

15 In previous reports it has also been highlighted that the Asset Maintenance and Superannuation reserves are not sustainable in the longer term.

16 My strong formal advice to the Council is that every effort must be made to achieve the agreed savings plan in order to ensure financial sustainability and preserve the level of reserves for future commitments. The Council should avoid, at all costs, the General Fund Reserve balance reducing below 10% of its Net Service Expenditure (for 2010/11 this equates to £1.7m).

17 The 2010/11 Revenue Budget relies on the use of some £1.7m from Reserves to fund 2001 pension deficit contributions and asset maintenance. Overall cash-backed reserves are expected to reduce by £1.5m during the year (see Appendix A to the 18 February Cabinet Report). It is essential that a strategy for addressing the medium term depletion of both the Superannuation Reserve and the Asset Maintenance Reserve is developed during the next financial year.

RISK ASSESSMENT STATEMENT

18 This report sets out the risks associated with the proposed budget in the context of the level of reserves held and the processes and procedures in place to manage it. A more detailed risk assessment was attached as Appendix G to the Budget and Council Tax report to the Cabinet meeting on 18 February 2010.

Sources of Information: 2010/11 Budget reports to Cabinet 18 February 2010

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APPENDICES 1 and 2 to follow