

TONBRIDGE & MALLING BOROUGH COUNCIL
FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

28 August 2013

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Non-Key Decision

1 MEDIUM TERM FINANCIAL STRATEGY

This report sets out at a high level the impact of the 2013 Spending Review announced in June and subsequent consultation papers on the Council's finances and, in turn, the Medium Term Financial Strategy. Members are asked to note that an early assessment is that the first savings tranche will increase by £200,000 to £1.1m.

1.1 Introduction

1.1.1 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.

1.2 Medium Term Financial Strategy

1.2.1 To recap, the Council's Medium Term Financial Strategy (MTFS) covers both revenue and capital budgets over a rolling ten-year period, and it is this Strategy that underpins the budget setting process each year and over the strategy period. The MTFS affords the opportunity to take a measured and structured approach to budget issues rather than a "knee jerk" reaction.

1.2.2 The MTFS 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 Clearly, the absolute size of the budget 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.2.4 Members will recall that when setting the budget for 2013/14 in February 2013 projections at that time suggested a ‘funding gap’ between expenditure and income of **circa £2.8 million**. Based on the above projection it was further suggested that the 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 ideally the start of the year 2014/15, 2016/17, 2017/18 and 2019/20 respectively).

1.3 Spending Review 2013

1.3.1 The Chancellor of the Exchequer published the Coalition Government’s Spending Review 2013 on 26 June 2013, setting out their public expenditure plans for 2015/16.

1.3.2 The overriding message coming from the 2013 Spending Review is that local government faces a **10% cut in its budgets in 2015/16** – on top of the 33% cut it has already faced. What we did not know at the time of publication of the Review is how this reduction would ‘shake out’ in terms of individual local authority allocations. (I shall come back to this later).

1.3.3 Other specific issues from the Spending Review 2013 that will impact on the Council’s finances and, in turn, the MTFs include:

- Confirmation that a further reduction of 1% would be made from the 2014/15 local government spending control total as announced by the Chancellor in the March 2013 Budget.
- The Government plans to set the **council tax referendum threshold at 2% for 2014/15 and 2015/16** (the MTFs assumes a 3% increase in council tax). The Spending Review report also stated that the government will make “funding available in 2014/15 and 2015/16 for local authorities who choose to freeze their council tax”. Details of the funding arrangements are yet to be disclosed.
- A Single Local Growth Fund has been created in response to Lord Heseltine’s review. This will be worth £2bn per annum over the period of the next Parliament. It is the source of this funding that is of particular interest (disappointing) as £400 million is to come from the New Homes Bonus.

1.3.4 It is worth noting that the Government’s intention to set the council tax referendum threshold at 2% for 2014/15 and 2015/16 adds further budgetary pressure to the Council’s finances in the order of **£160,000** by 2015/16 because the ‘working assumption’ in our own MTFs was for a 3% increase in council tax.

1.4 Consultation Papers

1.4.1 Subsequent to the Spending Review 2013, the Department for Communities and Local Government published in July 2013 a number of consultation papers. Two of these:

- Local Government Finance Settlement 2014-15 and 2015-16: Technical Consultation; and
- New Homes Bonus and the Local Growth Fund: Technical Consultation

are of particular interest; and it is our intention to respond to both of the consultation papers in due course.

Local Government Finance Settlement 2014-15 and 2015-16: Technical Consultation

1.4.2 The Local Government Finance Settlement 2014-15 and 2015-16: Technical Consultation sets out the Government's proposals for the distribution of revenue support grant in 2014-15 and 2015-16; and included in the paper are indicative Settlement Funding Assessments for both 2014/15 and 2015/16.

1.4.3 The indicative Settlement Funding Assessment for 2014/15 is £4,355,000 compared to the sum of £4,400,000 included in our MTFs approved in February 2013. A **decrease of £45,000** or around 1% and was to be expected following the announcement by the Chancellor in the March 2013 Budget.

1.4.4 The indicative Settlement Funding Assessment for 2015/16 is £3,691,000. This represents a **reduction of £664,000 or around 15%** compared to the indicative Settlement Funding Assessment for 2014/15 **when the headline message suggested a reduction of around 10%** (see paragraph 1.3.2). Investigation into this difference (10% to 15%) seems to indicate that it is a result of money being set aside for allocation to certain authorities, and increases in the amount set aside to fund safety net payments and the New Homes Bonus.

1.4.5 When compared to our own MTFs which was approved in February 2013, the indicative Settlement Funding Assessment for 2015/16 of £3,691,000 represents a **decrease of £357,000** with further cuts expected in future years.

New Homes Bonus and the Local Growth Fund: Technical Consultation

1.4.6 The New Homes Bonus and the Local Growth Fund: Technical Consultation looks at how £400 million is to be top-sliced from the New Homes Bonus. The paper sets out two possible options on how the £400 million contribution to the Local Growth Fund could be determined.

1.4.7 The first option is a flat rate percentage of all New Homes Bonus allocations with all authorities contributing an equal proportion of their New Homes Bonus allocations. The paper suggests a flat rate percentage of around 35%.

- 1.4.8 Our current estimated New Homes Bonus allocation for 2015/16 is £2,519,000 compared to £2,553,000 included in our MTFs approved in February 2013. Under this option our current estimate would be revised downwards to £1,637,000, a **decrease of £882,000**. This equates to £980 per Band D equivalent compared to £1,507 previously.
- 1.4.9 The second option would operate as described above for all areas with a single tier of local government, but where areas have two-tiers of local government upper tiers would surrender all of their New Homes Bonus, with the balance coming from the lower tier. The paper suggests a lower tier contribution rate of around 19%.
- 1.4.10 Under this option our current estimate would be revised downwards to £2,040,000, a **decrease of £479,000**. This equates to £1,221 per Band D equivalent compared to £1,507 previously.

1.5 Updating the Medium Term Financial Strategy

- 1.5.1 It must be stressed that over the coming months much more detailed work needs to be done on updating the Medium Term Financial Strategy. However, an early assessment of the impact of the above on the Council's finances and, in turn, the Medium Term Financial Strategy is outlined below.
- 1.5.2 In arriving at this early assessment I have assumed the New Homes Bonus will continue for the ten-year period (previously it was assumed it would cease in its current form during 2015/16 and be replaced with something else) but at the reduced level and assumptions about pay inflation have been reviewed for the four-year period 2014/15 to 2017/18.
- 1.5.3 **Based on the above this early assessment suggests the first savings tranche would need to increase by £200,000 to £1.1m.** Whilst it is feasible to defer the additional savings required to the second or third tranche (given the current level of reserves the Council has), if this route were taken the size of the additional savings would increase each year. **Therefore, my recommendation is that the additional 'pressure' of £200,000 is tackled immediately.**
- 1.5.4 Good progress, to date, is being made towards achieving the first savings tranche of £900,000 (albeit this has now been increased to £1.1m as a result of the Spending Review). This includes, amongst other things, savings to be made from the creation of the Tonbridge and Malling Leisure Trust as well as revisions to Members Allowances. In total, savings of circa £700,000 have been identified so far but as Members will see there is still a little way to go if the new 'target' of £1.1m is to be achieved by April 2014.
- 1.5.5 The Overview & Scrutiny Committee are currently progressing a series of reviews in order to achieve savings, and the Management Team will be embarking upon a review of all budgets during the forthcoming budget cycle in order to identify any further efficiencies or potential savings opportunities.

1.6 Legal Implications

1.6.1 None.

1.7 Financial and Value for Money Considerations

1.7.1 As set out above.

1.8 Risk Assessment

1.8.1 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.

1.8.2 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.

1.9 Equality Impact Assessment

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

1.10 Recommendations

1.10.1 It is **RECOMMENDED** that Members:

- 1) note that an early assessment of the impact of the Spending Review 2013 is to increase the first savings tranche by £200,000; and
- 2) agree that, alongside the reviews being undertaken by the Overview & Scrutiny Committee, appropriate work needs to be progressed by Management Team with a view to achieving the revised savings target of £1.1m by April 2014.

Background papers:

Nil

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Director of Finance and Transformation

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?	No	This report sets out the impact of the Spending Review 2013 on the Council's finances and, in turn, the Medium Term Financial Strategy.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report sets out the impact of the Spending Review 2013 on the Council's finances and, in turn, the Medium Term Financial Strategy.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		Not applicable.

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.