

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

22 June 2011

Report of the Chief Executive and Director of Finance

Part 1- Public

Matters for Recommendation to Council

1 UPDATE OF MEDIUM TERM FINANCIAL STRATEGY

1.1 Introduction

1.1.1 At the meeting of the Cabinet on 1 February 2011, and later endorsed by Full Council on 17 February, Members approved a revised version of the Medium Term Financial Strategy (MTFS) which now covers a 10 year period.

1.1.2 Members are reminded that the MTFS underpins the budget setting process, and gives us more scope to take a measured and structured approach to budget issues rather than a “knee jerk” reaction.

1.1.3 Since it was introduced in 2003, the MTFS has been instrumental in protecting the services that are provided by the Council and it has enabled us to take a more measured approach than would have been possible without it. However, it is important that we do view it as a panacea which can insulate the Council from the severe cuts in government funding.

1.1.4 At the time the most recent version of the MTFS was considered, details of the ‘**New Homes Bonus**’ (NHB) had not been finalised. As Members will be aware, details of the NHB have now been finalised and the Council is to benefit from this initiative. Therefore, it is now appropriate to revisit the MTFS and update it in order to assess the impact the NHB in particular has on the savings target the Council faces.

1.2 Updating the MTFS

1.2.1 The ‘version’ of the MTFS approved by Members in February 2011 is contained within the Council’s Budget Book for 2011/12 and is reproduced at **[Annex 1]** to this report. It identifies a funding gap of some £2.0 million which we suggested could be met in three separate tranches - £750k in 2012/13, a further £750k by 2013/14 and £500k by 2015/16.

1.2.2 Without the arrival of the NHB, therefore, we would be facing the requirement to find £750k of savings before the financial year 2012/13 begins. This would be a

significant challenge and would probably necessitate reductions in service provision given that there have already been substantial efficiency reductions in the 'back office'.

- 1.2.3 However, as Members are aware, on the basis of the increase in the borough's 'taxbase' as a result of the development of new homes over the course of the period October 2009 to October 2010, the Council has been awarded 'Year 1' NHB in 2011/12 of some £648k. In accordance with the terms of the NHB scheme, the Council is due to receive this same amount for a further 5 years.
- 1.2.4 Year 2 NHB (2012/13) will be assessed looking at the development of new homes between October 2010 to October 2011. If we were to assume a similar level of development, this would mean that in Year 2 the Council would receive £648k x 2 = £1.296M.
- 1.2.5 This follows in Year 3 – so, by way of example, if the same numbers applied again, we would receive £648k x 3 = £1.944M.
- 1.2.6 This begins to put a different perspective on the MTFS (certainly in the early years); however, inevitably there are some **BUTS!**
- 1.2.7 The **first**, and vital, point is that the government has made it clear that the funding for the NHB will, in due course, be **'top-sliced' from the formula grant funding** that central government provides to local government. This 'top-slicing' will affect all authorities (not just the ones who benefit from NHB), but inevitably this will mean that our formula grant will reduce even further. (Members will recall that we are already facing a circa 28% cut in funding in the first two years of the public sector funding programme). Therefore, this important point also needs to be reflected in the MTFS and will offset some of the benefit of the NHB.
- 1.2.8 The **second** point is that, whilst the government has indicated that it views NHB as a permanent feature of the system, experience shows that these schemes inevitably do have a limited lifespan. **Therefore, for the purposes of updating the MTFS we have taken the view that the scheme will apply only for the life of this parliament.**

1.3 Updated Version of MTFS

- 1.3.1 We attach at **[Annex 2]** an updated version of the MTFS taking on board the existence of the New Homes Bonus.
- 1.3.2 In respect of the impact on our formula grant (see paragraph 1.2.7), we have taken advice from LG Futures, a company which provides a briefing service to us on local government finance issues. This is, of course, purely a 'guesstimate', but it services to assist in re-profiling the MTFS into the future.

- 1.3.3 In respect of the longevity of the NHB (paragraph 1.2.8), we have assumed that the NHB will be honoured in 2015/16 based on October 2013 to October 2014 data.
- 1.3.4 Members will be aware that it was agreed that part of the NHB would be directed towards the Community Enhancement Fund (CEF) by setting aside £125k per year for a four year period 2011/12 to 2014/15 (=£500k in total).
- 1.3.5 As we indicated earlier in this report, the NHB gives some respite to the need to make savings – **but it is important to recognise that it does not take away that need**. Ultimately, and **all other things being equal**, a funding gap of just over £2.0M still exists. It is worth saying that future reductions in formula grant could be greater than those we have reflected, and if the economic growth projections continue to be revised downwards, this could add to the ultimate funding gap identified.
- 1.3.6 Members will see from **[Annex 2]** that, based on our assumptions above, we anticipate that the need to deliver significant savings can, however, be delayed until the financial year 2016/17. This is indeed welcome as it allows us to protect vital services for longer into the future. If the NHB were to survive for a longer period of time than we have perhaps prudently anticipated, then this may well assist our finances beyond the anticipated timescales.
- 1.3.7 As we always point out, however, it is vital that the Council continues to identify and deliver **efficiency savings** wherever possible, as well as reiterating the objective to **maximise income** (subject to market conditions, opportunities and comparable charges elsewhere). If we continue to deliver in this way, there will be a reduced need to implement front-line service cuts in due course.

1.4 Legal Implications

- 1.4.1 Section 28 of the Local Government Act 2003 requires the Director of Finance to keep the Council's finances under review during the year and to take action if there is evidence that financial pressures will result in budget overspend or if there is a shortfall in income.
- 1.4.2 Section 25 of the same Act also requires the Director of Finance, at the time of setting the budget and level of council tax, to report on the robustness of the budget estimates and the adequacy of financial reserves.

1.5 Financial and Value for Money Considerations

- 1.5.1 The MTFs is a dynamic document that is regularly reviewed. Over the coming months, assumptions will be reviewed in light of current circumstances and the document updated so as to inform the budget setting process.

1.6 Risk Assessment

- 1.6.1 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.
- 1.6.2 We are firmly of the belief that the Council has been extremely prudent in the management of its finances and that the financial pressures likely to confront the Council can be addressed in a considered, measured and controlled way.

1.7 Equality Impact Assessment

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

1.8 Recommendations

- 1.8.1 Members of the Cabinet are **REQUESTED** to
- 1) endorse the updating of the Medium Term Financial strategy to reflect the impact of the receipt of the New Homes Bonus;
 - 2) **RECOMMEND** its approval by Council.

Background papers:

contact: Sharon Shelton

Nil

David Hughes
Chief Executive

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?	No	

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?	N/A	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified 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.