

TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

03 January 2018

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

NOTE: THE REVISED ESTIMATES FOR 2017/18 AND THE ESTIMATES FOR 2018/19 ARE CONTAINED IN A SEPARATE BOOKLET CIRCULATED WITH THE AGENDA

1 REVENUE ESTIMATES 2018/19

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 Advisory Board is to assist both the Cabinet and the Council in the preparation of the Budget for 2018/19 within the context of the Medium Term Financial Strategy and the Council's priorities.

1.1 Introduction

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget for 2018/19. This report is intended as the basis for recommendations from this Board to the Cabinet.
- 1.1.2 The proposals will also be referred to the Overview and Scrutiny Committee for further consideration and advice. The Overview and Scrutiny Committee has a meeting on the 23 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 8 February to consider the recommendations of this Board and the Overview and Scrutiny Committee and, in addition, take into account the Council's final grant settlement.
- 1.1.3 At that special meeting on the 8 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2018/19 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 20 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.
- 1.1.4 The role of this Advisory Board is to consider in detail both the Revised Estimates for 2017/18 and the Estimates for 2018/19 within the context of the Medium Term

Financial Strategy and the Council's priorities. For completeness, details of how we are updating the Medium Term Financial Strategy are contained within this report for information.

1.2 Medium Term Financial Strategy

1.2.1 To recap, the Council's current 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 aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities. The MTFS sets out the high level objectives the Council wishes to fulfil over the agreed time span. These 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.
- Continue to **identify efficiency savings** and **opportunities for new or additional income sources** and to **seek appropriate reductions in service costs** in delivery of the Savings and Transformation Strategy approved by Members.
- Subject to there being sufficient resources within the capital reserve, set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (currently set at £200,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.2.2 The MTFS sets out, 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.

1.2.3 Members are fully aware of the significant financial challenge facing the Council as a result of the Government's ongoing budget deficit reduction programme which has resulted in continuing reductions in the financial support it can offer to local government. We believe, however, that our MTFS is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way, but with ever increasing pressure this is becoming progressively more difficult.

- 1.2.4 Members will recall that when setting the budget for 2017/18 in February 2017 projections at that time suggested a funding gap between expenditure and income of circa £1.6 million. Based on the above projection it was further suggested that we break the savings target into three tranches (tranche one £650,000, tranche two £700,000 and tranche three £250,000 to be achieved ideally by the start of the year 2018/19, 2019/20 and 2021/22 respectively).
- 1.2.5 The MTFs will need to be updated and rolled forward as part of the 2018/19 budget setting process. Further information about this, together with the issues that Cabinet will need to address when updating the MTFs are set out later in this report at paragraph 1.11.

1.3 Provisional Local Government Finance Settlement

- 1.3.1 On 19 December 2017, the Secretary of State for the Department for Communities and Local Government, Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement for 2018/19. The provisional figures are expected to be confirmed in late January/ early February 2018.
- 1.3.2 In 2016 the government offered any council that wished to take it up a multi-year settlement for the four year period 2016/17 to 2019/20 and as a result provided illustrative allocations up to 2019/20. This Council accepted the offer of a multi-year settlement and as you might expect the provisional Settlement Funding Assessment (SFA) for 2018/19 and illustrative allocation for 2019/20 are not that dissimilar to the indicative figures set out in the multi-year settlement.
- 1.3.3 Our provisional SFA for the year 2018/19 and illustrative allocation for 2019/20 can be seen in the table below. In 2019/20 our SFA is projected to be £1,264,921. This represents a cash decrease of £1,631,475 or 56.3% when compared to the equivalent figure of £2,896,396 in 2016/17.
- 1.3.4 In addition, Members are reminded of the changes made this time last year in respect of New Homes Bonus (NHB) which saw:
- 1) The length of NHB payments reduced in length from 6 years to 5 years in 2017/18 and to 4 years from 2018/19.
 - 2) The introduction of a national baseline for housing growth of 0.4% below which NHB will not be paid.
- 1.3.5 The Council's NHB for the year 2018/19 and illustrative figure for 2019/20 under the revised scheme can also be seen in the table below:-

| | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ |
|--------------------------------------|------------------|------------------|------------------|------------------|
| Local Share of Business Rates | 2,106,525 | 2,149,532 | 2,214,110 | 2,263,217 |
| Tariff Adjustment ('Negative RSG') | | | | (998,296) |
| Revenue Support Grant | 655,042 | | | |
| Transition Grant | 134,829 | 117,201 | | |
| Settlement Funding Assessment | 2,896,396 | 2,266,733 | 2,214,110 | 1,264,921 |
| Change over SR Period (£) | | | | (1,631,475) |
| Change over SR Period (%) | | | | -56.3% |
| New Homes Bonus ## | 3,847,880 | 3,490,134 | 3,334,128 | 3,401,545 |
| Total Grant Funding | 6,744,276 | 5,756,867 | 5,548,238 | 4,666,466 |
| Change over SR Period (£) | | | | (2,077,810) |
| Change over SR Period (%) | | | | -30.8% |

Note: Figures as set out in the settlement consultation which we believe are simply projections based on previous growth levels, and should be read in conjunction with paragraph 1.3.7 below.

- 1.3.6 The scale of housing delivery in the 12 month period used to determine NHB allocations for the year 2018/19 was exceptional at over 1,000. To put this into context the historic annual average is between 500 and 600 properties. As a result the Council's NHB for 2018/19 is £3,334,128 compared to £2,666,000 estimated this time last year. On the assumption there are no retrospective changes to the scheme this is a welcome windfall affording the opportunity to set aside monies to fund in part (or in full) particular initiatives – for example capital investment required in respect of the retender of the refuse, recycling and street cleansing contract. However, herein lies the dilemma – the phrase 'subject to no further changes' is very important. The period over which payments are made can be reduced, the baseline could be increased or both things could change at any time; and worse, the scheme can be withdrawn and the associated funding redistributed in some other way. In other words, NHB is at risk indefinitely and which, unsurprisingly, is of particular concern.
- 1.3.7 That said, in 2019/20 NHB is projected to be £3,401,545 (dependent on growth – a more conservative estimate would be £3.0 million) representing a cash decrease of £446,335 or 11.6% when compared to £3,847,880 in 2016/17. However, NHB will continue to fall beyond 2019/20 as the changes made this time last year work their way through the system and this year's exceptional housing delivery falls out of the calculation such that, by 2022/23, it is estimated that NHB could be in the order of £1.5m based on the current scheme.

- 1.3.8 **Members are asked to note that for medium term financial planning purposes it is assumed that from 2020/21 the scheme will reduce in length to three years and from 2021/22 the Council will receive via NHB and or alternative funding source in the order of £1.3m rising steadily thereafter to around £1.4m by 2027/28.** An alternative 'strategy' would be to remove NHB as a funding source within our MTFs. However, the consequential savings targets would be so extreme that it would make achievement of them virtually out of reach.
- 1.3.9 In 2019/20 the government project total grant funding to be £4,666,466 representing a cash decrease of £2,077,810 or 30.8% when compared to the equivalent figure of £6,744,276 in 2016/17. The government in recent years has referred to the increase / (decrease) in an authority's core spending power and this is what tends to be quoted in media coverage. Using 2015/16 as the base year the decrease in core spending power over the spending review period calculated by the government in cash terms is £200,000 or 1.2% (based on what are considered to be optimistic council tax income projections and NHB allocations).
- 1.3.10 The provisional local government finance settlement 2018/19 is subject to consultation. The return date for responses to the consultation is 16 January 2018. The paper can be found at the following link:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf
- 1.3.11 As the provisional SFA for 2018/19 and illustrative allocation for 2019/20 are not that dissimilar to the indicative figures set out this time last year it is considered on this occasion an individual response is not required.
- 1.3.12 Announced alongside the provisional settlement was the outcome of the **bids for pilot status** in respect of 100% business rates retention. Members may recall that, at the Cabinet meeting in October 2017, I reported that there was a proposal for Kent and Medway authorities to put in a bid and delegated authority was given to myself and the Chief Executive, in liaison with the Leader and Cabinet Member for Finance, Innovation and Property, to determine whether this Council should be party to the bid. A bid was subsequently submitted and I am very pleased to advise Members that the Secretary of State announced in his speech that the Kent and Medway bid has been successful.
- 1.3.13 In all, 10 pilots were successful. Based on the estimates prepared during the bidding process, it is expected that circa £25 million will come to the Kent and Medway pilot with the sum being divided into two discrete 'pots'. One for financial sustainability paid at individual council level, and the second for economic growth paid on a cluster basis.
- 1.3.14 In terms of financial stability, and based on the estimates prepared during the bidding process, a sum of circa £500,000 would come to TMBC in 2018/19.

Furthermore, an allocation of circa £1.0 million to the West Kent Cluster (Sevenoaks, Tunbridge Wells and Tonbridge & Malling areas) towards supporting housing and commercial growth is anticipated.

1.3.15 This is clearly very good news for Kent and Medway as a whole.

1.4 Fair Funding Review and ‘Negative RSG’ Consultation

1.4.1 Alongside the provisional settlement, the Secretary of State also announced a technical consultation entitled “*Fair funding review: a review of relative needs and resources*”. The paper can be found at the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf

1.4.2 The consultation will assist the DCLG with the development of a new funding allocation mechanism for local government, intended to be in place for 2020/21.

1.4.3 According to the DCLG’s document, the review will:

- “**set new baseline funding allocations** for local authorities;
- deliver an **up-to-date assessment of the relative needs of local authorities**. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; the review will determine what the redistribution should be;
- **examine the relative resources of local authorities**. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils;
- focus initially on the **services currently funded through the local government finance settlement**; and
- be **developed through close collaboration with local government** to seek views on the right approach.”

1.4.4 The consultation commenced on 19 December and will end on 12 March. In view of the timescales involved and the programming of meetings, it is **recommended that delegated authority be given** to the Director of Finance and Transformation in liaison with the Leader and Cabinet Member for Finance, Innovation and Property to respond to the consultation.

1.4.5 In addition, the Secretary of State announced that there will be a consultation taking place in Spring 2018 on the Negative RSG (tariff) adjustments, with the outcome feeding into the 2019/20 local government finance settlement. The Secretary of State stated “*I can confirm that my department will be looking at fair*

and affordable options for dealing with Negative RSG". However, for now, the negative RSG amounts remain with the 2019/20 individual authority figures as can be seen in the table at paragraph 1.3.5.

1.5 Local Referendums to Veto Excessive Council Tax Increases

- 1.5.1 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.
- 1.5.2 For the year 2018/19, a referendum will be triggered where council tax is increased by 3%, or more than 3% and more than £5. The Secretary of State advised that he had increased the threshold to 3% (from 2%) as this was the current level of inflation.
- 1.5.3 Members are aware that our MTFS assumes council tax increases to the higher of the thresholds. Until now, an increase of £5 is the higher threshold for TMBC representing a 2.53% increase in council tax. Increasing council tax by 3% in line with inflation in 2018/19 generates just shy of a further 0.5% increase over and above our original forecast figures in the MTFS.
- 1.5.4 Referendum principles currently do not apply to town and parish councils.

1.6 Specific Issues

- 1.6.1 Members are advised that certain government initiatives, e.g. Welfare Reform, will undoubtedly impact on the Council's finances over the medium term and an assessment of the potential impact is not straightforward. Nonetheless, I and Management Team will continue to monitor the potential impact as more information is made available.
- 1.6.2 In terms of the council tax base, built into the Medium Term Financial Strategy (MTFS) is an expectation about future growth in the number of band D equivalents over the ten-year period. Members will be aware that this growth (or otherwise) will impact on the level of the New Homes Bonus (NHB) that the Council **might** receive in the future. It is important, however, to recognise that the scale of development growth both in any one year and over the medium term is very difficult to predict given the market as well as other site specific conditions.
- 1.6.3 Recommendations regarding fees and charges are to be considered during this cycle of meetings. Any changes required following consideration of fees and charges presented to this and other meetings will be incorporated before the Estimates are reported to Cabinet on 8 February.
- 1.6.4 Other than loss of investment income, the draft Estimates presented do not take account of the revenue consequences of the addition of new capital schemes to

the Capital Plan. At its meeting on 8 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the MTFs and, where appropriate, recommend additions to the Capital Plan.

- 1.6.5 An additional contribution of £305,000 is to be made to the revenue reserve for capital schemes in 2017/18 to supplement the capital allowance in 2018/19 funded from the better than budgeted performance reflected in the 2017/18 revised estimates.
- 1.6.6 There is to be a further stepped increase in the annual contribution to the Building Repairs Reserve from £575,000 to £600,000 from 2018/19 to meet ongoing maintenance and repair obligations. In addition, the contribution in 2017/18 is to be increased from £575,000 to £900,000 funded from a review of earmarked reserves and the better than budgeted performance reflected in the 2017/18 revised estimates.
- 1.6.7 A contribution of £100,000 is to be made in 2017/18 and £200,000 in 2018/19 to the Tonbridge and Malling Leisure Trust Reserve established to meet potential payment obligations to the Trust funded from a review of earmarked reserves and the better than anticipated NHB grant award.
- 1.6.8 A sum of £700,000 is to be set aside to fund in full or in part capital investment required in respect of the retender of the refuse, recycling and street cleansing contract funded from the better than anticipated NHB grant award.
- 1.6.9 Turning to the individual Estimates, particular issues to be drawn to Members attention are set out below:

Corporate Services

- 1.6.10 Particular issues to be drawn to Members attention:
- 1) Salary estimates reflect savings accruing during the first part of the year and part year effect of establishment changes. Forward estimate reflects the full year effect of establishment changes and a provision for pay inflation.
 - 2) Revised estimate includes termination payments following changes to the establishment.
 - 3) Increased business rates payable in respect of council offices following 2017 revaluation.
 - 4) Includes provision for external decoration of Gibson West building in 2018/19.
 - 5) Estimates reflect outcome of insurance retendering exercise.

- 6) Information Technology Services estimates reflect additional maintenance costs and increased software support costs of the IT infrastructure.

Chief Executive

1.6.11 Particular issues to be drawn to Members attention:

- 1) Economic development and regeneration includes grant funding to support improvements to local retail centres.

Director of Central Services

1.6.12 Particular issues to be drawn to Members attention:

- 1) Local land charges budget reflects extension of short term temporary staff assistance and current market demand for the service in 2017/18.
- 2) Commercial property budget includes a provision for walkway repairs at Martin Square and Twisden Road and additional rental income following extension of lease at 1/3/5 Martin Square in 2018/19.
- 3) Land review budget includes a provision for business rates liability in respect of River Walk Offices, Castle Lodge and the Teen and Twenty site and a provision for refurbishment of Castle Lodge and fencing at River Walk in 2017/18.

Director of Finance and Transformation

1.6.13 Particular issues to be drawn to Members attention:

- 1) Housing benefits budget reflects the loss of the temporary accommodation management fee now subsumed within the flexible homelessness support grant.
- 2) The estimates reflect anticipated reduction in housing benefits expenditure as welfare reform measures accumulate.
- 3) The estimates reflect a further reduction in the administration grant from the DWP and DCLG in respect of housing benefits and council tax support.
- 4) Investment income includes the investment of anticipated sale proceeds in one or more property funds.
- 5) The estimates reflect a 2% increase in the levy paid to the Lower Medway Internal Drainage Board and a recommended 20% increase, subject to confirmation, in the levy paid to the Upper Medway Internal Drainage Board.

Director of Planning, Housing and Environmental Health

1.6.14 Particular issues to be drawn to Members attention:

- 1) Planning applications fee income reflects the increase in statutory fees.
- 2) Housing budgets reflect managerial and operational changes made in the Service.
- 3) Homelessness budget also reflects both the additional staff and non-staff costs as a result of the Homelessness Reduction Act. Funded at least in the short term by government grant.
- 4) Higher than anticipated grant from the Better Care Fund has allowed the West Kent Hospital and Handyperson Scheme and secondment of occupational therapist to be expanded and or extended to March 2020.

Director of Street Scene, Leisure and Technical Services

1.6.15 Particular issues to be drawn to Members attention:

- 1) The budget provisions for contract payments have been increased by 4.0% (RPI) or 3.0% (CPI), reflecting the assumed level of inflation at the time of preparing the estimates. Offset in part by operational efficiencies in the waste services contract.
- 2) Refuse collection, recycling and street scene budgets include provision for growth in new properties.
- 3) Estimates reflect renegotiation of the Tonbridge and Malling Leisure Trust service fee as reported to the Communities and Housing Advisory Board on 24 July 2017.
- 4) The payment to Sainsbury's in respect of ticket refunds at Angel Car Park has now been resolved, generating a one-off saving and a reduction in ongoing payments.
- 5) Increase in penalty charge notices income attributable to the increase in the number of civil enforcement officers, lower staff turnover and changes in operational arrangements.
- 6) Parking income reflects the proposed increase in charges as reported to the Street Scene and Environment Services Advisory Board on 6 November 2017.
- 7) On-street parking includes a provision for costs associated with Car Parking Action Plans.

1.7 Revised Revenue Estimates 2017/18

1.7.1 Overall, the Revised Estimates show an increase over the Original Estimates of £22,000 prior to making a contribution to/from the General Revenue Reserve.

1.7.2 The principal variations are given in the table below:-

| Description | DR £ | CR £ | |
|---|------------------|------------------|---------------|
| Building Repairs Reserve | 325,000 | | |
| Revenue Reserve for Capital Schemes | 305,000 | | |
| TMLT Reserve | 100,000 | | |
| Housing Benefits (net of subsidy) | 86,750 | | |
| Termination Payments | 59,600 | | |
| Business Rates | 47,050 | | |
| Building Control Partnership | 36,000 | | |
| Information Technology | 30,800 | | |
| TMLT Superannuation Costs | 28,000 | | |
| Council Tax Benefits Overpayments | 25,000 | | |
| Government Grant | | 36,200 | |
| Refuse, Recycling & Street Cleansing | | 36,650 | |
| Insurance | | 43,450 | |
| Contributions from KCC | | 50,100 | |
| Major Income Streams | | 94,400 | |
| Investment Income | | 150,000 | |
| Business Rates Retention Scheme Reserve | | 200,000 | |
| Car Park Ticket Refunds | | 207,000 | |
| Salaries & Contributions | | 257,450 | |
| Other Net Changes | 54,050 | | DR |
| Total | 1,097,250 | 1,075,250 | 22,000 |

1.8 Revenue Estimates 2018/19

1.8.1 Overall, the draft Estimates for 2018/19 show an increase over the Original Estimates for 2017/18 of £494,985 prior to making a contribution to/from the General Revenue Reserve.

1.8.2 The principal variations are given in the table below:-

| Description | DR £ | CR £ |
|--------------------------------------|---------|---------|
| Waste Services Contract Reserve | 700,000 | |
| TMLT Reserve | 200,000 | |
| Refuse, Recycling & Street Cleansing | 142,400 | |
| New Homes Bonus | 141,050 | |
| Transition Grant | 117,200 | |

| | | | |
|-----------------------------------|------------------|------------------|----------------|
| Information Technology | 107,850 | | |
| Salaries & Contributions | 104,000 | | |
| Drainage Board Levies | 45,400 | | |
| Housing Benefits (net of subsidy) | 40,750 | | |
| Council Tax Benefits Overpayments | 32,000 | | |
| Grounds Maintenance | 29,650 | | |
| Building Control Partnership | 28,000 | | |
| TMLT Superannuation Costs | 28,000 | | |
| Business Rates | 25,350 | | |
| Building Repairs Reserve | 25,000 | | |
| Collection Fund Adjustments | | 27,194 | |
| Country Parks Car Parking Income | | 29,700 | |
| Transport Policy Consultancy | | 30,000 | |
| Car Park Ticket Refunds | | 34,000 | |
| Government Grant | | 36,200 | |
| Insurance | | 44,600 | |
| TMLT Service Fee | | 144,750 | |
| Business Rates Retention Scheme | | 230,371 | |
| Investment Income | | 236,000 | |
| Major Income Streams | | 475,050 | |
| Other Net Changes | 16,200 | | DR |
| Total | 1,782,850 | 1,287,865 | 494,985 |

1.8.3 It is likely that there will need to be changes made to the Estimates as we move through the budget setting process. It is my intention to bring these together for the Cabinet Budget meeting in February, rather than introduce them in a piecemeal fashion.

1.9 Draft Capital Plan

1.9.1 A report elsewhere on this agenda seeks to advise Members of the way forward on the Capital Plan. The criteria established to guide the inclusion of new schemes to List C (holding list of schemes not yet fully worked up) and ultimately the inclusion of schemes on List A (schemes assigned budget provision) are:

- to meet legislative requirements including health and safety obligations;
- funded from external resources; and
- reduce revenue expenditure and or generate income.

1.9.2 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 8 February for endorsement by Council. With this in mind Members are advised that other than loss of

investment income the revenue consequences of new capital schemes **have yet to be incorporated within the Estimates.**

- 1.9.3 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 existing assets (vehicles, plant and equipment) as well as recurring capital expenditure.
- 1.9.4 As a result there is 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. It should be noted, based on current projections, that from 2021/22 the Council may need to borrow to fund such expenditure. The annual capital allowance is set at £200,000 and it is proposed that the annual allowance continue to be set at that level.
- 1.9.5 In addition, the Invest to Save Reserve or Transformation Reserve, subject to there being sufficient funds available and where deemed appropriate, could be used to fund in full or in part capital plan schemes.

1.10 Consultation with Non-Domestic (Business) Ratepayers

- 1.10.1 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.
- 1.10.2 Any comments or representations received from the consultees will be reported to Members during the budget process as appropriate.

1.11 Medium Term Financial Strategy Update

- 1.11.1 When updating the MTFs we need to take into account the following (not exclusive) factors:
- The Local Government Finance Settlement announcement.
 - Those factors that have contributed towards addressing the 'funding gap' including the renegotiation of the Tonbridge and Malling Leisure Trust service fee, investment return on proceeds from the pending sale of council owned assets and establishment changes.

- Those factors that have taken matters in the 'wrong' direction including pay inflation, resource pressures as a result of legislative changes and extending a council tax increase of £5 each year further into the future than this time last year.
- The level of council tax increase for 2018/19 above which the local authority would be required to seek the approval of their electorate via a local referendum. For the year 2018/19 a referendum will be triggered where council tax is increased by 3%, or more than 3% and more than £5. A decision about the level of council tax for 2018/19 will not be made until later in the cycle, but for the purposes of updating the MTFs, officers have at this point assumed an increase of circa 3% in 2018/19 followed by an increase of £5 each year up to 2026/27 and 3% in 2027/28. To put this into context, 1% currently equates to about £100,000.
- The ongoing impact of the Business Rates Retention scheme and the proposal to move to a 100% Business Rates Retention scheme. The Council's actual business rates income is currently below the baseline set under the scheme and the Council has to meet a share of that shortfall up to a maximum of circa £166,000 in 2018/19 (or would do if we were not part of the 2018/19 Kent and Medway pilot referred to earlier). Current projections suggest we were getting ever closer to the baseline set (but unfortunately now set back by Fidelity International's plans to close its Hildenborough office in the near future, followed by sad news of Palmer and Harvey going into administration). For medium term financial planning purposes it is assumed that from 2021/22 the Council will be above the baseline set and benefitting as a result from additional business rates income. The question remains as to what will our baseline funding level be under an 'eventual' 100% Business Rates Retention scheme – (noting that the Secretary of State announced a plan to move to a 75% retention scheme in 2020/21) – and how this then compares to that reflected in the MTFs taking into account transfer of any new responsibilities?
- The award of New Homes Bonus (NHB) and continuing uncertainty over its future. NHB is a critical component of our overall government grant funding and what happens to this funding stream is, therefore, of particular interest and concern. For medium term financial planning purposes it is assumed that from 2020/21 the scheme will reduce in length to three years (reduced from six years to four years previously) and from 2021/22 the Council will receive via NHB and or alternative funding source in the order of £1.3m rising steadily thereafter to around £1.4m by the end of the period. Changes over and above that assumed will only add to what is already a very difficult financial outlook and at worse put financial sustainability at risk. The question remains as to the extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

1.11.2 To recap, we set ourselves a **savings target for this year of £650,000** and Members will recall from the Finance Update in September that at that time around half of that sum had been identified. Since then further savings have been identified (e.g. potential investment return on the proceeds of land sales approved by Council; reduction in Council's own contribution to DFGs; and establishment changes reported to General Purposes Committee in November) and to date **savings in the order of £646,000 have been achieved** (a fraction shy of the target set for the year). See below for further detail.

| | £'000 | £'000 |
|--|-------|------------|
| Savings Identified to Date | | |
| Property Investment Funds: | | |
| Anticipated returns from asset disposals | 186 | |
| Core Funds | 13 | 199 |
| Tonbridge and Malling Leisure Trust Service Fee | | 145 |
| Establishment Changes / Service Reviews: | | |
| General Purposes Committee June 2017 | 24 | |
| General Purposes Committee Nov 2017 | 67 | 91 |
| Additional Income | | 75 |
| Insurance Premium | | 55 |
| Disabled Facilities Grants (see Capital Plan report) | | 50 |
| Members Allowances | | 28 |
| Visit Kent / Tourism South East | | 3 |
| Savings | | 646 |

1.11.3 This is clearly excellent news given the position we were in in September, and leaves only a small sum from the original target to find by the beginning of the new financial year.

1.11.4 **However**, as Members are aware, there are always other factors that can impact on the MTFs that either take the 'funding gap' in the right or wrong direction. When these factors are taken into account (most of which are outside our control) **net savings in the order of £600,000 have been achieved** when compiling the Revenue Estimates for 2018/19 and the difference of £50,000 will need to be reflected in the MTFs and the revised savings targets this generates.

1.11.5 This time last year the projected funding gap was put at £1.6m and a year on, all other things being equal, was expected to be £950,000. **The latest projected 'outstanding' funding gap is £1,000,000** (£1,600,000 - £600,000). The number, scale and timing of requisite savings tranches is the subject of consideration.

1.11.6 Clearly, the MTFS will continue to be updated as we move through the 2018/19 budget cycle and as more information becomes available. The updated MTFS will be presented with the Budget report to Cabinet in February. One thing is clear – a significant financial challenge remains to be addressed over the medium term.

1.12 Savings and Transformation Strategy

1.12.1 Alongside the MTFS now sits a Savings and Transformation Strategy (STS). The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council and, in so doing, recognise there is no one simple solution and as a result we will need to adopt a number of ways to deliver the savings within an agreed timetable.

1.12.2 A number of key themes have been identified, together with outline targets and timescales which will need to be revisited and aligned with the latest projected 'funding gap' as part of the budget setting process. An updated version of the STS will be presented within the Budget report to Cabinet.

1.13 Legal Implications

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

1.13.2 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.

1.14 Financial and Value for Money Considerations

1.14.1 Two key questions remain. What will our baseline funding level be under an 'eventual' 100% Business Rates Retention scheme and how this then compares to that reflected in the MTFS taking into account transfer of any new responsibilities; and the extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

1.14.2 The impact of current economic conditions on Council finances / financial assumptions in respect of inflation, interest rates, income levels, etc. and the scale of the impact over the medium term is uncertain and difficult to determine.

1.15 Risk Assessment

1.15.1 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.

- 1.15.2 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. In addition, not identifying and implementing the requisite savings will put at risk the integrity of the MTFS.
- 1.15.3 The increased uncertainty and volatility particularly in some of our major sources of income (business rates and New Homes Bonus) and more recently Brexit make financial planning that more difficult with the increased risk of significant variances compared to projections.
- 1.15.4 The projected figures for New Homes Bonus are at risk of further revision downwards which would further add to the savings targets.
- 1.15.5 Members are reminded that there are factors not reflected in or throughout the duration of the MTFS, e.g. the impact of Welfare Reform changes (Universal Credit). In addition, beyond 2026/27, the MTFS assumes a 3% increase in council tax.
- 1.15.6 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.16 Equality Impact Assessment

- 1.16.1 Where there is a perceived impact on end users an equality impact assessment has been carried out and as further savings options emerge, further equality impact assessments will need to be carried out as appropriate.

1.17 Recommendations

- 1.17.1 The Advisory Board is asked 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 8 February.
 - 2) Recommend to Cabinet that the Savings and Transformation Strategy is updated to reflect the latest projected funding gap as part of the budget setting process.

- 3) Agree that delegated authority be given to the Director of Finance and Transformation in liaison with the Leader and Cabinet Member for Finance, Innovation & Property to respond to the technical consultation entitled "*Fair funding review: a review of relative needs and resources*".

Background papers:

Nil

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