

# TONBRIDGE & MALLING BOROUGH COUNCIL

## OVERVIEW AND SCRUTINY COMMITTEE

28 January 2014

### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Recommendation to Cabinet

**MEMBERS ARE ASKED TO BRING WITH THEM THE ESTIMATES BOOKLET CIRCULATED WITH THE AGENDA FOR THE MEETING OF THE FINANCE, INNOVATION AND PROPERTY ADVISORY BOARD**

#### **1 REVENUE ESTIMATES 2014/15**

**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 Committee is to assist both the Cabinet and the Council in the preparation of the Budget for 2014/15 within the context of the Medium Term Financial Strategy and the Council's priorities.**

#### **1.1 Introduction and Timetable**

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget. This report is intended as the basis for recommendations from this Committee to the Cabinet.
- 1.1.2 A special meeting of the Cabinet is scheduled for the 4 February to consider the recommendations of this Committee and of the Finance, Innovation and Property Advisory Board and, in addition, take into account the Council's final grant settlement.
- 1.1.3 At that special meeting on the 4 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2014/15 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 13 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 Committee is to consider both the Revised Estimates for 2013/14 and the Estimates for 2014/15 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.
- 1.1.5 Copies of the Booklet containing the draft Revenue Estimates has already been circulated to all Members with the agenda for the meeting of the Finance, Innovation and Property Advisory Board. Please bring your copy of the Booklet to this meeting. If Members require further copies, please contact Michael Withey, Principal Accountant on extension 6103 or by e-mail at michael.withey@tmbc.gov.uk
- 1.1.6 Members will note from the Booklet that the 2014/15 Estimates total £13,419,200 **prior** to making a contribution to/from the General Revenue Reserve. This represents a **decrease of £357,950** or 2.6% over the Original Estimates for 2013/14. Members are referred to the report presented to the meeting of the Finance, Innovation and Property Advisory Board for further details on the Estimates.
- 1.1.7 It is likely that there will need to be changes made to the Estimates as we move through the budget setting process. It is the intention of the Director of Finance and Transformation to bring these together for the Cabinet Budget meeting in February, rather than introduce them in a piecemeal fashion.

## 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;
  - Over the strategy period, **continue to identify efficiency savings and opportunities for new or additional income sources** within the Council's budget to contribute towards the identified 'funding gap'; and, if necessary thereafter, **seek appropriate reductions in service costs** following consultation, as necessary, with taxpayers;

- Set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (set at £320,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.
- 1.2.2 Based on current financial information, 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 that the Council faces an increasingly 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.
- 1.2.4 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. Clearly, the absolute size of the budget 'funding gap' will influence the timescales we can afford ourselves to address the problem.
- 1.2.5 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).
- 1.2.6 The MTFs will need to be updated and rolled forward as part of the 2014/15 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 1.9.

### **1.3 Provisional Local Government Finance Settlement**

- 1.3.1 On 18 December 2013, provisional Settlement Funding Assessments for 2014/15 were published along with indicative figures for 2015/16. Each local authority's actual allocation for 2014/15 is expected to be confirmed in January 2014.
- 1.3.2 Our provisional Settlement Funding Assessment for 2014/15 is £4,356,517. This represents a cash decrease of £676,738 or 13.4% when compared to the equivalent figure of £5,033,255 in 2013/14. Included in the Settlement Funding Assessment is the parish councils' indicative allocation in respect of the council tax support scheme, however, it is not separately identified as it was in 2012/13.

- 1.3.3 In addition, the Council's grant award under the New Homes Bonus (NHB) scheme in 2014/15 is £2,395,874 compared to £1,636,217 in 2013/14. Grant funding including NHB is, therefore, £6,752,391. A breakdown of the total grant funding into the various funding streams is set out in the table below.

	2013/14 £	2014/15 £	Cash Increase / (Decrease)	
			£	%
Local Share of Business Rates	2,010,774	2,049,944	39,170	1.9
Revenue Support Grant	3,022,481	2,306,573	(715,908)	(23.7)
<b>Settlement Funding Assessment</b>	<b>5,033,255</b>	<b>4,356,517</b>	<b>(676,738)</b>	<b>(13.4)</b>
New Homes Bonus	1,636,217	2,395,874	759,657	46.4
<b>Total Grant Funding</b>	<b>6,669,472</b>	<b>6,752,391</b>	<b>82,919</b>	<b>1.2</b>

- 1.3.4 In recent years the government has referred to the increase / (decrease) in an authority's **spending power**; and this is what tends to be quoted in media coverage. The calculation of the spending power is rather complex but, for **simplicity purposes**, although it is not exactly the same, TMBC's spending power can be taken to be the percentage increase / (decrease) in **total** grant funding. As can be seen from the table above our total grant funding increased by 1.2% and the increase in spending power calculated by the government is given as 1.1%. Members will note that the increase in overall funding and spending power is attributable to the fact that our grant award under the NHB more than negates the decrease in our Settlement Funding Assessment.
- 1.3.5 This outcome is not entirely surprising because the Council has been doing exactly what is being asked of it by the government: **facilitating housing investment and, in turn, stimulating economic growth**. The number of new dwellings completed and included in the calculation for NHB in 2014/15 was extremely good and surpassed our own 'realistic' expectation. This was, therefore, a 'good' year; however the risk is that this is an extremely volatile form of funding and other years may not prove to be so good!
- 1.3.6 Our concern has always been what happens when NHB in its current form 'ceases' and/or it is replaced by something else, and we hit the metaphorical 'cliff edge'. Putting to one side NHB, it is worth noting that, **of the twelve district councils in Kent, Tonbridge & Malling Borough Council continues to receive the lowest Settlement Funding Assessment both in total and per head**.
- 1.3.7 The Provisional Settlement also gives indicative figures for 2015/16 – to assist us in forward planning. Our indicative Settlement Funding Assessment for 2015/16 is £3,684,595. This represents a cash decrease of £671,922 or 15.4% when compared to the equivalent figure of £4,356,517 in 2014/15. Again, the

Settlement Funding Assessment includes the parish councils' indicative allocation in respect of the council tax support scheme. In addition, the Council's grant award under the NHB scheme in 2015/16 is estimated to be £2,943,073 compared to £2,395,874 in 2014/15. (The 'actual' NHB for 2015/16 will not be known until returns have been compiled during the course of next year regarding completions, so this is truly an estimate at this point.)

- 1.3.8 **Total** grant funding including NHB is, therefore, anticipated to be £6,627,668 in 2015/16; which is a 1.8% reduction on the 2014/15 total funding. A breakdown of the total grant funding into the various funding streams is set out in the table below.

	2014/15 £	2015/16 £	Cash Increase / (Decrease)	
			£	%
Local Share of Business Rates	2,049,944	2,106,525	56,581	2.8
Revenue Support Grant	2,306,573	1,578,070	(728,503)	(31.6)
<b>Settlement Funding Assessment</b>	<b>4,356,517</b>	<b>3,684,595</b>	<b>(671,922)</b>	<b>(15.4)</b>
New Homes Bonus	2,395,874	2,943,073	547,199	22.8
<b>Total Grant Funding</b>	<b>6,752,391</b>	<b>6,627,668</b>	<b>(124,723)</b>	<b>(1.8)</b>

#### 14 Local Referendums to Veto Excessive Council Tax Increases

- 1.4.1 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.
- 1.4.2 In previous years, the referendum limit in respect of council tax increases was announced at the same time as the provisional local government finance settlement. Earlier in the year, as part of the Spending Review, Members may recall that we were advised that this was to be set at 2% for two years. However, as the Minister unveiled the local government finance settlement, a written statement revealed that he and his department remained undecided about what level of council tax increases will require a referendum and an announcement would be made in the New Year. Members will, I am sure, agree that this is extremely late and makes the budget setting process that more difficult to bring together and present to Cabinet.
- 1.4.3 At this stage, for financial planning purposes, I have **assumed a council tax referendum threshold of 2% for 2014/15 and 2015/16**. Members might wish to

note that the Minister gave no hint as to whether parish councils would be included in the referendum rules or not.

- 1.4.4 It was also announced that funding for council tax freezes in 2014/15 and 2015/16 will **become part of local authority's baseline funding**. To this end the Government has announced that it will provide funding equivalent to a 1.0% increase in council tax in 2014/15 and 2015/16. **If interpreted correctly, this is important because it appears that the government is to adopt a different approach to 'freeze grant' than in previous years** where the 'benefit' of the grant funding disappeared after one (or possibly two) years and it became a bit of a 'double-edged sword'.
- 1.4.5 In order to present 'options' to the Cabinet in due course, and in the absence of information to the contrary, I am assuming that the **freeze funding due to be handed out in 2014/15 will continue indefinitely**.
- 1.4.6 Members might recall that, in his Autumn Statement, the Chancellor said that local government would be protected from further reductions in public sector expenditure for 2014/15 to 2015/16 of 1.1% *"to help local authorities to freeze council tax in 2014/15 and 2015/16"*.

## 1.5 Business Rates Retention

- 1.5.1 Members will be aware that, from April 2013, the Government introduced the Business Rates Retention scheme. For medium term financial planning purposes we have assumed that the business rates baseline attributed to TMBC is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority will have to **meet a share of that shortfall up to a maximum of circa £150,000 in year one**. It should be noted that this figure increases each year in line with inflation.

## 1.6 New Homes Bonus

- 1.6.1 Following the outcome of a consultation undertaken by the government which was reported to this Advisory Board in October, it has been announced that the New Homes Bonus **will not be pooled** to Local Enterprise Partnerships outside of London as was previously proposed. This is, of course, most welcome and is in line with the response submitted by this Council; but, looking forward, the sustainability of the New Homes Bonus in its current form remains a concern. The government has said it intends to carry out an evaluation of NHB and consult on measures to improve the incentive provided.
- 1.6.2 For medium term financial planning purposes, I have assumed that there will be a phased withdrawal of the current NHB model from 2015/16 onwards and that the model will be replaced with something else, but with a reduced level of funding. It should be noted that, depending on how any replacement 'model' allocates funding to individual local authorities, there is a real risk that the Council could

see its **overall grant funding reduce by more than is presently reflected in the Medium Term Financial Strategy.**

- 1.6.3 It is of course impossible to estimate with any certainty what that might mean for TMBC, but our working assumption is that this could require a **further potential savings tranche of circa £700,000.**

## 1.7 Draft Capital Plan

- 1.7.1 A report elsewhere on this agenda seeks to advise Members of the way forward on the Capital Plan. A few years ago Members agreed a set of criteria to guide the inclusion of new schemes to List C (wish list) and ultimately the inclusion of schemes on List A (schemes assigned budget provision). The criteria are: to meet legislative requirements including health and safety obligations; funded from external resources; generate income or reduce revenue expenditure.
- 1.7.2 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 4 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.**
- 1.7.3 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 our assets which deliver services as well as recurring capital expenditure.
- 1.7.4 In order to get to this position there is now 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. Members are reminded that in setting the budget for 2013/14 that allowance was set at £320,000. It should be noted that the Council in due course will need to borrow to fund such expenditure.

## 1.8 Consultation with Non-Domestic Ratepayers

- 1.8.1 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.

1.8.2 Any comments or representations received from the consultees will be reported to Members throughout the budget process.

## 1.9 Update of our Medium Term Financial Strategy

1.9.1 Members may recall the report to the Advisory Board in August 2013 which gave an early assessment of the impact, on the Council's finances and MTFs, of the 2013 Spending Review announced in June and subsequent consultation papers.

1.9.2 Based on that assessment it was suggested that the first savings tranche would need to increase by £200,000 to £1.1m and that the additional pressure of £200,000 was tackled as part of the 2014/15 budget setting process leaving the timing and scale of the further three savings tranches to be achieved unchanged (for the time being).

1.9.3 When updating the MTFs we need to take into account the following (not exclusive) factors:

- those factors that have contributed towards addressing the 'funding gap';
- those factors that have taken matters in the 'wrong' direction;
- the announcement on the level of council tax increase for 2014/15 above which the local authority would be required to seek the approval of their electorate via a local referendum and the government's commitment in partnership with local authorities to freeze council tax in England for a further year;
- the ongoing impact of the Business Rates Retention scheme; and
- award of New Homes Bonus.

1.9.4 I am extremely pleased to report that in total, and after taking into account issues that take the 'funding gap' in the wrong direction, **net savings in excess of £1.2 million have been achieved against the target set of £1.1 million** when compiling the Revenue Estimates for 2014/15. Although there is little or no time to take stock of this achievement, given that there are more challenges ahead, we should do so if only for a moment.

1.9.5 Assuming a **council tax referendum threshold of 2%** (but see paragraph 1.4.2) **the updated 'funding gap' (savings target) is circa £1.9 million**. As in previous iterations of the MTFs we could breakdown the savings target into tranches. For example, the savings target could be broken down into three tranches (two equal tranches of £700,000 and a final tranche of £500,000) to be achieved by 2016/17, 2017/18 and 2019/20 respectively. However, in order to maintain momentum and focus, following discussion with the Leader and Cabinet Member for Finance, Innovation and Property it is the Management Team's intention to set a savings target for next year by breaking out the first savings



tranche into two parts – i.e. say £250,000 followed by £450,000. Please note that the council tax increase may differ slightly due to the arrangements to be applied in respect of the payment of any special levies in the calculation.

- 1.9.6 If Members were minded, in due course, **to implement a council tax ‘freeze’**, then, **assuming the 2014/15 freeze funding continues indefinitely in the ‘baseline’** (see paragraph 1.4.5) **the updated ‘funding gap’ (savings target) would be in the order of £2.050 million**. In this case, the savings target could again be broken down into three tranches (two equal tranches of £775,000 and a final tranche of £500,000) to be achieved by 2016/17, 2017/18 and 2019/20 respectively. Again, in order to maintain momentum and focus it would be the Management Team’s intention to set a savings target for next year by breaking out the first savings tranche into two parts – i.e. say £250,000 followed by £525,000.
- 1.9.7 The figures above are, presently, indicative figures intended to give Members a ‘flavour’ of the choices and challenges ahead. However, it can be seen from the above that the implications of accepting the grant to freeze council tax as opposed to a council tax increase of 2% adds around £150,000 to the overall savings we have to make.
- 1.9.8 Clearly, the Medium Term Financial Strategy will continue to be updated as we move through the 2014/15 budget cycle and as more information becomes available. Members will note from this latest ‘update’ that the projected funding gap is £1.9 million (increase in council tax 2%) or £2.050 million (council tax freeze). More detail will be presented to Cabinet in February when it is hoped that further clarification will have been received regarding freeze grants and the referendum limits.

## **1.10 Finance, Innovation and Property Advisory Board**

- 1.10.1 The draft Revenue Estimates were considered in detail at the meeting of the Finance, Innovation and Property Advisory Board on 8 January where a number of officers were available to answer detailed questions.
- 1.10.2 It is not our intention to replicate the officer representation at this meeting and assume that Members will wish to focus on the strategic aspects of the Estimates rather than the detail. If Members do have detailed questions, please contact Neil Lawley, Chief Financial Services Officer on extension 6095 or by e-mail at [neil.lawley@tmbc.gov.uk](mailto:neil.lawley@tmbc.gov.uk) in advance of the meeting. Where appropriate, he will liaise with the relevant Services and advise accordingly.
- 1.10.3 The Finance, Innovation and Property Advisory Board endorsed the draft Revenue Estimates as presented.

## **1.11 Legal Implications**

- 1.11.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.11.2 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.

## **1.12 Financial and Value for Money Considerations**

- 1.12.1 As set out above.

## **1.13 Risk Assessment**

- 1.13.1 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.
- 1.13.2 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.
- 1.13.3 The increased uncertainty and volatility particularly in some of our major sources of income make financial planning that more difficult with the increased risk of significant variances compared to projections.
- 1.13.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

## **1.14 Equality Impact Assessment**

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

## 1.15 Recommendations

1.15.1 The Committee is requested 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 4 February.

Background papers:

Nil

contact: Sharon Shelton  
Neil Lawley

Sharon Shelton  
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?	Yes	Some changes to budgets may have potential to cause adverse impact and where this is deemed to be the case a separate report including an equality impact assessment has or will be undertaken at the appropriate time.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report sets out draft proposals in respect of the Budget for the forthcoming year within the context of the Medium Term Financial Strategy and the Council's priorities. As mentioned above changes to budgets where there are deemed to be equality issues a separate equality impact assessment has or will be undertaken at the appropriate time.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		See responses 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.*