

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

07 October 2015

Report of the Director of Finance and Transformation

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY

This report provides details of how we are updating the Medium Term Financial Strategy in terms of government grant funding. Members are also reminded of the significant financial challenges facing the Council and asked to reflect on how we plan the 'way forward'.

1.1 Introduction

1.1.1 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.

1.1.2 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; and

- 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.

1.1.3 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 Managing the Financial Challenges

1.2.1 Members are fully aware of the significant financial challenges 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.

1.2.2 Over the past 4 to 5 years in response to those funding reductions, the Council has released £2.8 million in savings; £1 million of which has come from the Council's core staffing establishment.

1.2.3 Despite the breadth of savings already achieved, when setting the budget for 2015/16 in February 2015, projections at that time suggested that there was still a 'funding gap' between expenditure and income of circa £1.4 million.

1.2.4 Based on the above projection Members agreed that we break the £1.4 million savings target into three tranches:

- Tranche one £200,000 to be achieved by the start of the year 2016/17;
- Tranche two £700,000 to be achieved by the start of the year 2017/18; and
- Tranche three £500,000 to be achieved by the start of the year 2018/19.

1.2.5 In terms of tranche one, to date savings of £75,000 have been 'banked'. We are continuing to work on options to meet the imminent savings target 'balance' of £125,000.

1.3 Medium Term Financial Strategy Update

1.3.1 The outcome of the Spending Review 2015 is due to be published on 25 November and will set out the intended reductions to be applied to departmental spending limits over the three-year period 2016/17 to 2018/19.

- 1.3.2 In the lead up to the Spending Review 2015 the Chancellor asked non-protected departments such as the Department for Communities and Local Government to work on a 25% and a 40% reduction in funding. What is difficult to determine is how the total available funding, whatever that might be, will then be 'shaken down' to individual local authorities.
- 1.3.3 As Members are aware, a critical component of our overall government grant funding is New Homes Bonus (NHB). By way of context, in 2015/16 we are due to receive a sum of £3.1 million in NHB compared to a sum of £1.6 million from Revenue Support Grant. As previously explained, all of the NHB we receive is used to underpin our revenue budget; and therefore the future of NHB is of particular interest and concern. Members may have read in the local government press about 'pitches' being made by county councils for a greater share of the NHB (currently districts receive 80% and counties 20%).
- 1.3.4 It may be the case that NHB in its current form continues for the duration of this parliament or for either a shorter or longer period. What we do need to recognise is that when changes are made to NHB, whenever that might be, the financial challenge faced by the Council could at best be difficult and at worst 'stark'.
- 1.3.5 Members will appreciate that with so much uncertainty over government grant funding, not least NHB, financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections. This can be demonstrated by way of potential **best and worst** case scenarios:-
- **'Best case'** – If NHB in its current form was to continue indefinitely the projected funding gap would be in the order of £50,000.
 - **'Worst case'** – If NHB ceases immediately the projected funding gap would be in the order of £3.5 million, in addition to £125,000 to be found over the coming months.
- 1.3.6 Irrespective of the uncertainty and scale of volatility attached to financial planning, as an organisation we do need to agree the principles and assumptions we will adopt to update the MTFS for the forthcoming budget setting process. In that regard the **preferred option** is to adopt what could be seen as a **'central case'** unless and until information becomes available that leads us to reconsider one or more of the assumptions that make up the proposed option.
- **'Central case'** – Nationally, NHB funding is halved from £2 billion to £1 billion over the two-year period 2017/18 to 2018/19 but then continues in its current form thereafter. For TMBC, the projected funding gap in our MTFS would be in the order of £1.4 million.

- 1.3.7 Members are reminded that there are factors not reflected in (or throughout the duration of) the MTFs, e.g:
- the shortfall to be met by the Council in respect of the Business Rates Retention scheme; and
 - cost implications as a result of government initiatives to identify housing benefit overpayments and, in turn, reduce the ongoing benefit bill.
- 1.3.8 In addition, beyond 2016/17, the MTFs assumes a 3% increase in council tax year on year whereas the threshold above which a referendum is to be held has in recent years been set at 2%.
- 1.3.9 Unless other variables 'counteract' the impacts of the above, these factors could potentially increase the funding gap beyond the £1.4 million identified above.

1.4 Summary

- 1.4.1 For each of the scenarios set out above (best, worst and central case) it is also assumed that Revenue Support Grant will be phased out over the three-year period 2016/17 to 2018/19.
- 1.4.2 It can be seen from the above that financial planning is becoming increasingly difficult with the projected funding gap ranging from £50,000 to £3.5 million.
- 1.4.3 The proposed 'case' to be adopted in updating the MTFs gives a projected funding gap of £1.4 million which more by chance is the same as that identified when setting the budget for 2015/16 in February of this year. **This is a significant financial challenge given that £2.8 million has already been stripped out of the budget in recent years.**

1.5 The Way Forward?

- 1.5.1 The latest working version of the MTFs would suggest of this year's savings target of £200,000 there remains £125,000 to be identified as we move through the forthcoming budget setting process. As mentioned at paragraph 1.2.5, we are continuing to work on options to meet this imminent savings target 'balance'.
- 1.5.2 In terms of the substantive element of the projected £1.4 million funding gap, some radical 'options' may need to be explored. It goes without saying that we will continue to strive for efficiencies in all of the services we presently provide.
- 1.5.3 However, it is inevitable that we will need to revisit and re-evaluate the list of ('discretionary') services that the Council presently offers but is not mandated by law to provide.
- 1.5.4 Mandatory services should also be examined because it will be incumbent upon us to review the level of service we choose to provide, having regard to the cost of

that provision and the priorities that the Council wishes to afford to service areas within our emerging budgetary context.

- 1.5.5 To assist this work, Management Team will be examining broadly how services are delivered and aligned with each other and considering benchmarking data to provide some guidance and comparison. Importantly, this work should be developed alongside the production of our new Corporate Plan to clearly set out how the Council will work moving forward and what the key priorities will be where we will focus our reducing resources.
- 1.5.6 As part of this whole effort, Members are aware that the Overview & Scrutiny Committee has already embarked on a rigorous review programme of the Council's services and functions. An important element of that work is to examine potential opportunities for developing new areas of income generation and looking at the fees and charges made for Council services. It is envisaged that the 'pace' and breadth of the review programme will need to be maintained for some time in order to provide sufficient options for Cabinet and Council to consider.
- 1.5.7 **If the 'gap' is to be bridged, it is clear that some difficult, and potentially radical, choices will have to be made.**

1.6 Legal Implications

- 1.6.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.6.2 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.

1.7 Financial and Value for Money Considerations

- 1.7.1 As set out above.

1.8 Risk Assessment

- 1.8.1 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.

- 1.8.2 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.
- 1.8.3 The increased uncertainty and volatility particularly in some of our major sources of income (business rates and New Homes Bonus) make financial planning that more difficult with the increased risk of significant variances compared to projections.
- 1.8.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.9 Equality Impact Assessment

- 1.9.1 The decisions recommended through this paper at this stage have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users at this stage, although as savings options emerge, equality impact assessments will need to be carried out.

1.10 Recommendations

- 1.10.1 Members are asked to:

- 1) **ENDORSE** the proposed 'central case' option to be adopted in updating the Medium Term Financial Strategy; and
- 2) **RECOGNISE** the significant financial pressure that TMBC still faces over the next three year.

Background papers:

Nil

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