

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

26 January 2016

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

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

1 REVENUE ESTIMATES 2016/17

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 2016/17 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 2016/17. 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 11 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 11 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2016/17 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 16 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 2015/16 and the Estimates for 2016/17 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 2016/17 Estimates total £11,398,300 **prior** to making a contribution to/from the General Revenue Reserve. This represents a **decrease of £998,050** (excluding Business Rates Retention Scheme Reserve) over the Original Estimates for 2015/16. 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.

- 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 In recognition of the Savings and Transformation Strategy report to Cabinet on 17 November 2015 it is proposed that the objective above starting, 'Over the strategy period' be replaced by:
- 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.
- 1.2.3 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.
- 1.2.4 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.
- 1.2.5 Members will recall that when setting the budget for 2015/16 in February 2015 projections at that time suggested a 'funding gap' between expenditure and income of circa £1.4 million. Based on the above projection it was further suggested that we break the savings target into three tranches (tranche one £200,000, tranche two £700,000 and tranche three £500,000 to be achieved by ideally the start of the year 2016/17, 2017/18 and 2018/19).
- 1.2.6 The MTFs will need to be updated and rolled forward as part of the 2016/17 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 17 December 2015, the Secretary of State for the Department for Communities and Local Government, Greg Clark MP, made a statement to Parliament on the provisional local government finance settlement for 2016/17. The provisional figures are expected to be confirmed in late January/early February 2016. The government will offer any council that wishes to take it up a

four-year funding settlement to 2019/20 and as a result illustrative allocations up to 2019/20 have also been provided.

- 1.3.2 A new methodology has been adopted where rather than applying the same percentage cut to all local authorities, the government now propose to take into account the amount that can be raised locally from council tax. The government has also altered the split of funding between tiers of government seemingly in favour of upper tier authorities, with larger funding reductions for district councils. This approach sees our revenue support grant reduce to zero by 2017/18 and thereafter further reductions are reflected by way of a 'tariff adjustment' under the business rates retention scheme. What this highlights is that the settlement has been designed taking in account the particular pressures experienced by councils which provide adult social care and children's services ('robbing Peter (district councils) to pay Paul (authorities with responsibility for social care)' comes to mind).
- 1.3.3 Our provisional Settlement Funding Assessment (core funding) for 2016/17 and illustrative allocations up to 2019/20 can be seen in the table below. In 2019/20 our Settlement Funding Assessment is projected to be £1,283,705. This represents a cash decrease of £2,394,894 or 65.1% (the district council average is 44.3%) when compared to the equivalent figure of £3,678,599 in 2015/16. 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. Members are aware that this Council has traditionally passed on this funding to parish councils even though it is not separately identified; although some councils have chosen not to do so.
- 1.3.4 The Council's grant award for 2016/17 and illustrative figures up to 2019/20 under the New Homes Bonus scheme can also be seen in the table below and reflect proposed changes, the subject of consultation, to the scheme. Again, the proposed changes are designed to deliver savings which can be redistributed to authorities with responsibility for social care ('robbing Peter to pay Paul'). In 2019/20 NHB is projected to be £2,332,185. This represents a cash decrease of £768,968 or 24.8% when compared to £3,101,153 in 2015/16.
- 1.3.5 In 2019/20 Total Grant Funding is projected to be £3,615,890. This represents a cash decrease of £3,163,862 or 46.7% when compared to the equivalent figure of £6,779,752.

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Local Share of Business Rates	2,089,115	2,106,525	2,147,957	2,211,323	2,282,001
Tariff Adjustment			(78,401)	(512,899)	(998,296)
Revenue Support Grant	1,589,484	655,042			
Settlement Funding Assessment	3,678,599	2,761,567	2,069,556	1,698,424	1,283,705
Change over SR Period (£)					(2,394,894)
Change over SR Period (%)					-65.1%
New Homes Bonus ##	3,101,153	3,843,083	3,868,836	2,430,655	2,332,185
Total Grant Funding	6,779,752	6,604,650	5,938,392	4,129,079	3,615,890
Change over SR Period (£)					(3,163,862)
Change over SR Period (%)					-46.7%

Note: These are the figures set out in the settlement consultation, although I am uncertain as to how these projected allocations have been arrived at by government.

- 1.3.6 In recent years the government has referred to the increase / (decrease) in an authority's spending power (now known as core spending power) and this is what tends to be quoted in media coverage. The decrease in core spending power calculated by the government over the four-year period is 10.9%.
- 1.3.7 The provisional local government finance settlement 2016/17 and an offer to councils for future years is the subject of consultation. The return date for responses to the consultation was 15 January 2016. The paper can be found at the following link:
- https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf
- 1.3.8 A copy of our response is attached at **[Annex 1]**.
- 1.3.9 In overview, the provisional settlement, alongside the NHB proposals, brings added funding pressure for district councils and thereby increases the risks of financial sustainability. Four particular points within the response are given below:
- 1) In recognition of the fact that the Settlement and the proposed changes to NHB are redistributing funding to authorities with responsibility for social care resulting in larger funding reductions for district councils, district councils should not be subject to the council tax referendum principles or at the very least the higher threshold of 4% should apply to district councils too.

- 2) New Homes Bonus in 2019/20 is projected to be circa £2.3 million, but is not part of what is termed core funding, therefore, could, in full or in part, be seen to be at risk indefinitely (potential further reductions likely). This is clearly of concern particular when our core funding in 2019/20 is projected to be circa £1.3 million. To consider the offer of a four- year funding settlement the Council would first need to understand what its business rates baseline will be on the implementation of the 100% business rates retention scheme and if and how NHB is to be subsumed within the scheme.
- 3) The introduction of a 'tariff adjustment' under the business rates retention scheme is an opportunity to recognise and adjust for exceptional circumstances, for example, when our highest business ratepayer, Aylesford Newsprint, went into administration and the Council found itself in safety net position where it remains. As a result the government should be asked to consider a 'top adjustment' in addition to the 'tariff adjustment'.
- 4) The figures for council tax income included in the consultation assume that income in TMBC will increase by some 17% over the settlement period. This is a significant increase even allowing for potential 2% increases in Band D each year and a 'natural' level of taxbase growth. It appears that the government have compared the taxbase increase between 2013/14 and 2015/16 and assumed that the growth will continue at that level. That is extremely unlikely because the increase between those years has been influenced by the uplift in the CTRS scheme from 8.5% to 18.5%; plus the discounts and exemptions we have reviewed and reduced. These changes we have made cannot be replicated again so we have nowhere else to go. It seems to me that the wrong financial years have been used in assessing taxbase growth. This is of particular concern because in working out the reductions in RSG, the government are now taking into account the amount that is raised locally from council tax. Those authorities with higher taxbases relative to their Settlement Funding Assessment (like TMBC) have a higher reduction in grant than other councils. Effectively, it could be argued that TMBC taxpayers (along with taxpayers of authorities in a similar position) are disadvantaged in comparison to taxpayers in other areas.

1.4 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 A referendum will be triggered where council tax is increased by 2% or more for 2016/17. However, see the comment in response to the provisional local

government finance settlement at paragraph 1.3.9 (1). It should be noted that beyond 2016/17 the Medium Term Financial Strategy assumes a 3% increase in council tax year on year. To put this into context, 1% currently equates to about £90,000. Parish councils have not been subject to the referendum limit previously, and are not subject to it for 2016/17.

1.4.3 There has been no announcement on a council tax freeze grant for 2016/17.

1.5 Business Rates Retention

1.5.1 Members will be aware that, from April 2013, the Government introduced the Business Rates Retention scheme. Where our actual business rates income is less than the baseline set under the scheme the Council has to **meet a share of that shortfall up to a maximum of circa £156,700 this year, 2015/16**. This figure increases each year in line with inflation.

1.5.2 As a result of Aylesford Newsprint, our highest business ratepayer, going into administration in February 2015 the Council is below its baseline. However, see the comment in response to the provisional local government finance settlement at paragraph 1.3.9 (3).

1.5.3 For medium term financial planning purposes we continue to assume our actual business rates income is equal to the baseline set.

1.6 New Homes Bonus

1.6.1 A critical component of our overall government grant funding is New Homes Bonus (NHB) and what happens to NHB, therefore, will be of particular interest and concern.

1.6.2 As mentioned at paragraph 1.3.4 our projected grant award under the NHB scheme reflects proposed changes to the scheme which are the subject of a consultation paper. The paper sets out proposals for:

- Reductions in the number of years for which NHB is paid from the current six to four years.
- Withholding NHB from areas where an authority does not have a Local Plan in place.
- Abating NHB in circumstances where planning permission for a new development has only been granted on appeal.
- Adjusting NHB to reflect estimates of deadweight by potentially introducing a baseline level of growth (0.25% suggested).

1.6.3 Again, the proposed changes are designed to deliver savings which can be redistributed to authorities with responsibility for social care. As a result our grant award in 2019/20 is projected to be £2,332,185. This represents a cash decrease

of £768,968 or 24.8% when compared to £3,101,153 in 2015/16. Furthermore, as **NHB is not part of what is termed core funding it could be seen to be at risk indefinitely** (potential further reductions likely).

- 1.6.4 The return date for responses to the consultation is 10 March 2016. It is my intention to report our proposed response for endorsement to the ordinary Cabinet meeting on 2 February. The consultation paper can be found at the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487095/151217_-_nhb_draft_condoc_published_version.pdf

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. 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.
- 1.7.2 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 11 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 existing assets (vehicles, plant and equipment) as well as recurring capital expenditure.
- 1.7.4 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 2019/20 the Council will need to borrow to fund such expenditure. In order to support the funding arrangement in respect of the Tonbridge Town Lock Scheme in April 2015 the annual capital allowance was set at £200,000 and it is proposed that the annual allowance continue to be set at that level.

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 during the budget process as appropriate.

1.9 Medium Term Financial Strategy Update

- 1.9.1 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 2016/17 above which the local authority would be required to seek the approval of their electorate via a local referendum;
 - the ongoing impact of the Business Rates Retention scheme; and
 - award of New Homes Bonus.
- 1.9.2 Members will recall we set ourselves a savings target this year of £200,000. Reflected in the estimates are ‘in-service efficiencies’ of just over £200,000 recently identified by Management Team (one of the savings themes identified within the Savings and Transformation Strategy). In addition, other net savings of over £100,000 have been reflected.
- 1.9.3 However, with both the provisional local government finance settlement 2016/17 including illustrative allocations up to 2019/20 and the proposed changes to NHB redistributing funding to authorities with responsibility for social care, the projected ‘outstanding’ funding gap now stands at £1.9 million with **potential for further reductions in NHB in the future**. This requires us to introduce an additional savings tranche of £700,000 to be achieved, based on current projections, by either 1 April 2021 or 1 April 2022 (absolute latest).
- 1.9.4 Undoubtedly, a significant financial challenge remains and if the ‘gap’ is to be bridged, it is clear that some difficult, and potentially radical, choices will have to

be made. A Savings & Transformation Strategy has been recommended by Cabinet to Full Council, and this will already need to be extended and hardened. The Overview and Scrutiny Committee has already embarked on a rigorous review programme of the Council's services and functions.

1.9.5 As in previous iterations of the MTFS the revised savings target can be broken down into tranches. Based on previous decisions by Members with regard to the delivery of savings, I propose the following timescales:

- 1) Tranche one - as already set out in MTFS, £700,000 to be achieved by April 2017.
- 2) Tranche two - as already set out in MTFS, £500,000 to be achieved by April 2018.
- 3) Tranche three - an additional target of £700,000 to be achieved by April 2021 or April 2022 at the latest.

1.9.6 Clearly, the Medium Term Financial Strategy will continue to be updated as we move through the 2016/17 budget cycle and as more information becomes available.

1.10 Savings and Transformation Strategy

1.10.1 Alongside the MTFS now sits a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the significant 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.

1.10.2 As Members are no doubt aware a number of key themes have been identified, together with outline targets and an indicative year of implementation for each. Further details can be found in the report to Cabinet on 17 November 2015.

1.10.3 It should be noted that the outline targets currently total £1,550,000 less the 'in-service efficiencies' target of £200,000 met as part of the budget setting process. As a result the targets set against each theme will need to be revisited with the projected 'funding gap' now standing at £1.9 million.

1.11 Finance, Innovation and Property Advisory Board

1.11.1 The draft Revenue Estimates were considered in detail at the meeting of the Finance, Innovation and Property Advisory Board on 13 January where a number of officers were available to answer detailed questions.

1.11.2 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 in advance of the meeting. Where appropriate, he will liaise with the relevant Services and advise accordingly.

- 1.11.3 The Finance, Innovation and Property Advisory Board endorsed the draft Revenue Estimates as presented.

1.12 Legal Implications

- 1.12.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.12.2 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.

1.13 Financial and Value for Money Considerations

- 1.13.1 As set out above.

1.14 Risk Assessment

- 1.14.1 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.
- 1.14.2 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.
- 1.14.3 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.
- 1.14.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.
- 1.14.5 Members are reminded that there are factors not reflected in or throughout the duration of the MTFS, e.g. potential 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. In addition, beyond 2016/17, the MTFSS 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%.

1.14.6 The settlement consultation includes projected figures for New Homes Bonus and council tax income over the 4 year period which lack explanation and which may be difficult to achieve. There is a risk that these figures could be adjusted downwards which would further add to the savings targets.

1.15 Equality Impact Assessment

1.15.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.16 Recommendations

1.16.1 The Committee is requested to:

- 1) Recommend that the objective set out at paragraph 1.2.2 replace the one starting, 'Over the strategy period' at paragraph 1.2.1.
- 2) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 11 February.
- 3) Recommend to Cabinet that the Savings and Transformation Strategy is updated to reflect the financial impact of the provisional local government finance settlement.

Background papers:

Nil

contact: Sharon Shelton
Neil Lawley

Sharon Shelton
Director of Finance and Transformation