

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

11 February 2016

Report of the Chief Executive, Director of Finance and Transformation, Leader of the Council and Cabinet Member for Finance, Innovation and Property

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET

Further to reports to the meeting of the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee earlier in the cycle, this report updates Cabinet on issues relating to the Medium Term Financial Strategy. It also takes Members through the necessary procedures in order to set the Budget for 2016/17.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 16 February, Members will determine both the Budget and the level of council tax for 2016/17. The detailed Estimates for 2016/17 prepared by your Officers have been carefully considered by the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee. Details are set out at paragraph 1.3 below.
- 1.1.2 Whilst the primary purpose of this report is for Cabinet to recommend the Budget and resultant level of council tax for 2016/17; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy (MTFS) covering a ten-year period. Financial decisions made in respect of the year 2016/17 will have an impact across the MTFS and upon the savings targets the Council will need to achieve in order to 'balance its books' and we must not lose sight of the scale of this particular challenge.
- 1.1.3 The Localism Act requires a local authority to seek the approval of their electorate via a local referendum if it proposes to raise council tax above the threshold set by the Secretary of State. The final local government finance settlement was confirmed on 8 February. For the year 2016/17 a referendum will be triggered where council tax is increased by the higher of **2% or £5**. For the purposes of preparing the budget papers an increase of £5 each year for the four-year period 2016/17 to 2019/20 has been assumed; and beyond 2019/20 the MTFS assumes a 3% increase in council tax year on year. To put this into context, 1% currently equates to about £90,000.

- 1.1.4 Undoubtedly the Council continues to face a significant financial challenge in respect of identifying and implementing savings over the coming years. As Members are aware, we set a target of achieving savings of £200,000 this financial year, and this has been achieved.
- 1.1.5 However, with the Local Government Finance Settlement over the four-year period 2016/17 to 2019/20, together with the proposed changes to NHB redistributing funding to authorities with responsibility for social care it is estimated **further savings** of circa £1.825m (and potentially a greater sum) need to be identified and implemented over the medium term should a council tax increase of £5 be approved.
- 1.1.6 Members will note that the further savings figure of £1.825m is marginally 'better' than the figure quoted in the Savings & Transformation Strategy report elsewhere on this agenda. This is due to the impact of the remodelling of the MTFS we have undertaken following the release of the final settlement and the ongoing adjustments being made to the estimates set out in the table at paragraph 1.3.2.
- 1.1.7 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members' attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:
- Local Government Finance Settlement
 - Revenue Estimates 2016/17
 - Fees and Charges
 - Capital Plan
 - Treasury Management and Annual Investment Strategy
 - Consultation with Non-Domestic Ratepayers
 - Medium Term Financial Strategy Update
 - Savings and Transformation Strategy
 - Collection Fund Adjustments
 - Parish Councils
 - Robustness of Estimates / Adequacy of Reserves
 - Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

- 1.2.1 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 final figures were (eventually) confirmed on 8 February 2016, and Members will see later in this report that the Secretary of State has made some changes as a result of the responses to the consultation. 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.
- 1.2.2 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).
- 1.2.3 As Cabinet will be aware, a robust response was sent in response to the provisional settlement, and the Council also collaborated with other district councils who found themselves in a similar predicament in making a further joint response. The Secretary of State has listened, in part, to the concerns raised. Changes to the provisional settlement on publication of the final settlement for Tonbridge & Malling Borough Council are:
- 1) Transitional funding provided for 2016/17 and 2017/18.
 - 2) Removal of tariff adjustment in 2017/18 and 2018/19 (reduction of £998,296 remains in place for 2019/20).
 - 3) Increase in the council tax referendum limit for all district councils to the higher of 2% or £5 over the four years.
- 1.2.4 There is no additional central government funding for 2019/20 meaning it is only the pace of reductions in funding that is now less severe as a result of these changes. **In other words, the financial 'baseline' for the future is still the same.**
- 1.2.5 Our 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% when compared to the equivalent figure of £3,678,599 in 2015/16.

- 1.2.6 Included in the Settlement Funding Assessment is the parish councils' indicative allocation in respect of the council tax reduction scheme (CTRS), 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. Elsewhere on this agenda in the Savings & Transformation Strategy report, it is suggested that Cabinet discuss the CTRS funding with parish councils alongside the review of the Scheme of Financial Arrangements.
- 1.2.7 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 £2,332,049. This represents a cash decrease of £769,104 or 24.8% when compared to £3,101,153 in 2015/16.
- 1.2.8 In 2019/20 Total Grant Funding is projected to be £3,615,754. This represents a cash decrease of £3,163,998 or 46.7% when compared to the equivalent figure of £6,779,752 in 2015/16.

	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					(998,296)
Revenue Support Grant	1,589,484	655,042			
Transition Grant		134,829	117,201		
Settlement Funding Assessment	3,678,599	2,896,396	2,265,158	2,211,323	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	3,868,610	2,430,513	2,332,049
Total Grant Funding	6,779,752	6,739,479	6,133,768	4,641,836	3,615,754
Change over SR Period (£)					(3,163,998)
Change over SR Period (%)					-46.7%

Note: These are the figures set out in the Settlement consultation which are subject to change.

- 1.2.9 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 8.7%.

- 1.2.10 In overview, the Settlement, alongside the NHB proposals, brings added funding pressure for district councils and the services they provide and could put financial sustainability at risk.
- 1.2.11 **Of the twelve district councils in Kent, Tonbridge & Malling Borough Council continues to receive one of the lowest, if not the lowest, Settlement Funding Assessment both in total and per head.** A comparison of our Settlement Funding Assessment each year for the period 2016/17 to 2019/20 with those of other Kent district councils is provided at **[Annex 1a]**.
- 1.2.12 Attached at **[Annex 1b]** for Members' information is a copy of the Referendums Principles setting out 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.

1.3 Revenue Estimates 2016/17

- 1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2016/17 were presented to the meetings of the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Advisory Board and of the Committee is to assist both the Cabinet and the Council in the development of its budget within the context of the Medium Term Financial Strategy and the Council's priorities. Whilst a number of questions were posed by Members at these meetings, the Revenue Estimates as presented were endorsed.
- 1.3.2 Adjustments made to the Revenue Estimates presented to the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee are detailed in the table below. The movement in the Business Rates Retention Scheme Reserve is largely to take account of the timing differences in the accounting arrangements.

	Revised Estimate 2015/16 £	Original Estimate 2016/17 £
Summary Total reported to Finance, Innovation and Property Advisory Board on 13 January 2016	11,722,850	11,398,300
Pre-planning advice		(16,000)
Car park charges (excluding West Malling short stay car park)		(46,050)

General Purposes Committee – Establishment report		(18,450)
DWP Administration Grant		(26,300)
Invest to Save Reserve		300,000
Business Rates Retention Scheme Reserve	77,550	(2,000,000)
Transition Grant		(134,850)
Current Summary Total	11,800,400	9,456,650

1.4 Fees and Charges

- 1.4.1 During the course of this budget cycle Members have, via the appropriate Advisory Boards, made recommendations regarding the levels of fees and charges to be implemented.
- 1.4.2 Proposals in respect of fees and charges recommended via the appropriate Advisory Boards have been reflected in the Budget (excluding West Malling short stay car park). A summary of these recommendations together with the resolution of Licensing and Appeals Committee in respect of licensing fees is set out at **[Annex 2]**.
- 1.4.3 Members are accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards (excluding West Malling short stay car park which is the subject of a petition).

1.5 Capital Plan

- 1.5.1 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 13 January followed by the Overview and Scrutiny Committee on 26 January.
- 1.5.2 Members' attention was drawn to the significant financial challenge faced by the Council and the impact this has on the ability of the Council to invest in capital schemes. It was, however, also acknowledged that some capital projects can have a beneficial effect on the revenue position by either generating additional or new income, or alternatively producing cost savings in due course.
- 1.5.3 Members were reminded of 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). The criteria are:
- to meet legislative requirements including health and safety obligations;

- funded from external resources; and
 - reduce revenue expenditure and or generate income.
- 1.5.4 The subsequent recommendations where appropriate have regard to these criteria.
- 1.5.5 Capital expenditure is currently funded from the revenue reserve for capital schemes, grants from government and other bodies, developer contributions and from capital receipts derived from the sale of assets.
- 1.5.6 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.
- 1.5.7 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.
- 1.5.8 The Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers. The recommendations were:
- 1) Cabinet be asked to endorse the Capital Plan (List A) position as shown in Annex 2 of the Capital Plan Booklet and summarised at **[Annex 3]** noting:
 - (a) The increase in the budget provision in respect of the Tonbridge Town Lock capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.3 refers).
 - (b) The additional works at an estimated cost of £20,000 to be met in full by the TMLT and the use of the urgency procedure to amend the Capital Plan accordingly (FIP Advisory Board report paragraph 1.4.4 refers).
 - (c) The increase in the budget provision in respect of the river wall, Wouldham capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.6 refers).
 - 2) Members are aware of the undoubtedly difficult financial landscape that lies ahead where it will be difficult to fund other than priority capital plan schemes. As a result a number of what could be termed 'like to do'

schemes that, in many cases, have sat on List C for a number of years are recommended to be deleted and, in so doing, focus attention on what are seen as priority capital plan schemes or where there is the potential for external funding. The schemes listed in **[Annex 4]** are added to List C or deleted from List C as detailed.

- 3) The schemes listed in **[Annex 5]** are selected for evaluation over the coming year including one for Fast-Track evaluation.
- 4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]**.
- 5) Cabinet be asked to endorse the Capital Strategy at Annex 5 for adoption by Council and publication on the Council's website.

1.5.9 Attention was also drawn to a proposal from Kent County Council (KCC) for the provision of a new / enhanced tow path from Maidstone to Allington lock. KCC and Maidstone Borough Council have secured £2 million from the local growth fund for the project and Maidstone Borough Council has indicated funding of up to £500,000. KCC is seeking a contribution from this Council of up to £300,000 for the project to extend the path from Allington to Aylesford station. Whilst it is recognised that the proposal would be desirable in terms of improving access along the riverside, it does not meet the Council's existing priorities or stated criteria for capital funding, and no developer contributions are either available or forthcoming in the locality. A contribution of £300,000 would be in excess of the Council's entire annual allowance for funding new schemes and could bring forward the date when the Council would have to borrow to fund new capital plan schemes. As a result it is felt that the proposal from KCC cannot be supported.

1.5.10 Members are asked to note the following **updates** post the meeting of the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee.

- 1) The Haysden Country Park – Site Improvements scheme has moved to the evaluation stage and **[Annex 5]** updated accordingly.

1.5.11 The estimated annual revenue costs of the evaluated List C schemes are given in the table below. The amount and timing of any revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income. It can be seen that if the schemes are progressed as recommended the estimated revenue consequence is £5,000 in 2016/17 and £5,000 in subsequent years.

Scheme	Capital Cost £	Revenue Impact	
		2016/17 £	2017/18 £
Haysden Country Park: Ext. of Play Area	55,000	5,000	5,000
Total	55,000	5,000	5,000

- 1.5.12 The above scheme is to be funded primarily by a grant of £50,000 from the SITA Trust. Release of the grant is subject to a payment to a third party. As a result the balance of £11,000 is to be funded by way of a virement from the Tonbridge Racecourse Sportsground Flood Lighting scheme.
- 1.5.13 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.5.11 is attached at **[Annex 7]**.
- 1.5.14 A funding statement based on **[Annex 7]** is attached at **[Annex 8]**. The main source of funding is the Revenue Reserve for Capital Schemes and the impact on the Revenue Reserve for Capital Schemes is illustrated in **[Annex 9]**.
- 1.5.15 Accordingly, it is **RECOMMENDED** that:
- 1) Cabinet approves the position of the existing Capital Plan (List A) as summarised at **[Annex 3]** noting:
 - The increase in the budget provision in respect of the Tonbridge Town Lock capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.3 refers).
 - The additional works at an estimated cost of £20,000 to be met in full by the TMLT and the use of the urgency procedure to amend the Capital Plan accordingly (FIP Advisory Board report paragraph 1.4.4 refers).
 - The increase in the budget provision in respect of the river wall, Wouldham capital plan scheme and how that is to be funded (FIP Advisory Board report paragraph 1.4.6 refers).
 - 2) Cabinet approves that the schemes as detailed in **[Annex 4]** are added to List C or deleted from List C.
 - 3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year including one for Fast-Track evaluation.
 - 4) Cabinet approves the transfer of schemes detailed in **[Annex 6]** to List A.
 - 5) Cabinet approves the updated Capital Plan (List A) as summarised in **[Annex 7]**.
 - 6) Cabinet endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 13 January and the Overview and Scrutiny Committee on 26 January.

1.6 Treasury Management and Annual Investment Strategy

- 1.6.1 The Local Government Act 2003 and its subsidiary regulations set out the framework for the system of capital controls which applied from 1 April 2004

whereby local authorities must set their own borrowing limits with regard to affordability, prudence and sustainability. Underpinning this is a requirement to follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 1.6.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice (the Code) is adopted and that a number of prudential indicators are set. Council adopted the December 2009 edition of the Code on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management and Annual Investment Strategy for 2016/17.
- 1.6.3 The approval of the Strategy and determination of the prudential indicators has to be made by Full Council, as do amendments to either the Strategy or indicators during the year.
- 1.6.4 The Prudential Code under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set as follows:
- 1) The capital financing requirement - the extent to which the authority needs to undertake external borrowing to support its capital programme.
 - 2) The operational boundary for external debt.
 - 3) The authorised limit for external debt.
 - 4) The actual external debt.
 - 5) The upper limit for fixed interest rate exposure.
 - 6) The upper limit for variable rate exposure.
 - 7) The upper limit for total principal sums invested for over 364 days.
 - 8) The maturity structure for new fixed rate borrowing during 2016/17.
- 1.6.5 A summary of the indicators appears in the table below.

Treasury Management Prudential Indicators					
Prudential Indicator	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'000	£'000	£'000	£'000	£'000
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	2,000	2,000	2,000	2,000
The authorised limit for external debt	NIL	5,000	5,000	5,000	5,000
Actual external debt	NIL	NIL	NIL	NIL	NIL

The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%	
The upper limit for variable rate exposure < 1 year at year end	11,466 58.9%	It is anticipated that the net exposure will range between 40% to 100%	
The upper limit for total principal sums invested for over 364 days at year end	NIL 0%	60% of core funds	
The maturity structure for new fixed rate borrowing during 2016/17		Upper Limit	Lower Limit
Under 12 months		100%	NIL
Over 12 months		NIL	NIL

- 1.6.6 The capital financing requirement measures the amount of external borrowing that the Council expects to have to undertake in support of its capital programme. A nil figure indicates that no borrowing is required. As this Council is debt free and does not expect to have to borrow to support its capital programme over the period covered, this indicator is nil.
- 1.6.7 The operational boundary is designed to cover all day to day borrowing requirements. As this Council is debt free, borrowing is only undertaken on a short-term basis to cover cash flow management. Experience suggests that an operational boundary of £2.0m will be sufficient to cover all likely contingencies.
- 1.6.8 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements. A limit of £5.0m is estimated to be sufficient to cover such eventualities.
- 1.6.9 The other prudential indicators which we are required to set are shown in the table below.

Prudential Indicators

1.	Ratio of actual and estimated financing costs to the net revenue stream	(Interest payable with respect to borrowing less interest and investment income) ÷ (government grants plus call on local taxpayers) x 100%.						
	2014/15 actual	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated	2019/20 estimated	2020/21 estimated	2021/22 estimated
	-1.36%	-1.60%	-2.07%	-2.53%	-3.71%	-5.35%	-5.22%	-4.71%
2.	Estimates of the incremental impact of capital investment decisions on the Council Tax	The revenue impact of capital schemes added to the capital plan on the Council Tax Band D equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] .						

		2016/17 estimated £ 0.10	2017/18 estimated £ 0.00	2018/19 estimated £ 0.00	2019/20 estimated £ 0.00	2020/21 estimated £ 0.00	2021/22 estimated £ 0.00
Total							
3.	Actual and estimated capital expenditure	This indicator is based on the updated capital plan position. The figures are based on those shown in [Annex 8] .					
2014/15 actual £'000 2,341	2015/16 estimated £'000 4,696	2016/17 estimated £'000 3,314	2017/18 estimated £'000 1,872	2018/19 estimated £'000 1,679	2019/20 estimated £'000 1,684	2020/21 estimated £'000 1,608	2021/22 estimated £'000 1,485

- 1.6.10 We, therefore, **RECOMMEND** that for the financial year 2016/17 the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 be recommended to Council for adoption.
- 1.6.11 A local authority has a statutory duty to “*determine for the current financial year an amount of minimum revenue provision that it considers to be prudent*” in relation to its capital expenditure. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try and match the years over which such assets benefit the local community through their useful life.
- 1.6.12 The spreading of these costs is through what is termed an *annual minimum revenue provision*. As the Council is debt free and, at least in the short term, does not expect to borrow to support its capital programme the minimum revenue provision is nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing. Based on current estimates, this is not anticipated to be until the financial year 2019/20.
- 1.6.13 Members are asked to NOTE that for the financial year 2016/17 our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 Representatives of the Council’s Non Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. 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. The deadline given for responses was 15 January 2016. ***Cabinet is advised that no comments have been received.***

1.8 Medium Term Financial Strategy Update

- 1.8.1 To recap, the Council's 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 for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities.
- 1.8.2 The Strategy also sets out, based on current financial information, 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.
- 1.8.3 Members are fully aware of the significant financial challenge faced by 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.
- 1.8.4 The MTFS sets out the high level objectives the Council wishes to fulfil over the agreed time span and which 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.

1.8.5 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.

Subject to this suggested amendment, Members are asked to reaffirm the high level objectives of the MTFs set out in paragraph 1.8.4 above.

1.8.6 The budget for 2016/17 is, naturally, the starting point for updating the MTFs. Referring to paragraph 1.3.2, Members will note that the Summary Total for the 2015/16 Revised Estimates is £11,800,400; and for the 2016/17 Estimates is £9,456,650 and are used in the budget projections in the Medium Term Financial Strategy at **[Annex 11]**.

1.8.7 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.

1.8.8 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.

1.8.9 However, with both the 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 £1.825 million (see paragraph 1.1.6) 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 the 1 April 2021 (at the latest).

1.8.10 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 and Transformation Strategy has been recommended by Cabinet to Full Council, and as Members will see from the report elsewhere on this agenda, this has already needed to be extended and hardened since its inception. The Overview and Scrutiny Committee has already embarked on a rigorous review programme of the Council's services and functions.

1.8.11 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 - £625,000 to be achieved by April 2017.
- 2) Tranche two - £500,000 to be achieved by April 2018.
- 3) Tranche three - an additional target of £700,000 to be achieved by April 2021 at the latest.

1.8.12 The MTFs has been remodelled assuming that the Council will take up the Secretary of State's revised 'offer' in terms of the council tax referendum principles over the 4 year period of the settlement. Indeed, in reworking the core spending power calculations, the DCLG has assumed that district councils will increase council tax to this level. Some of the headline statistics should a council tax increase of £5 be approved are as follows:

<u>2016/17</u>	
Council Tax Band D	£192.51
Increase per annum	£5.00
Increase per week	10 pence
Anticipated Council Tax Income	£9,169,000

<u>MTFS</u>	
Total Base budget savings required:	£1.825m

The savings could be broken down into tranches. For example:

First tranche by 1 April 2017	£625,000
Second tranche by 1 April 2018	£500,000
Third tranche by 1 April 2021 at the latest	£700,000
Reserve balance at end of period	£2.645m

1.8.13 **[Annex 11]** sets out the picture for the MTFs.

- 1.8.14 In addition, for medium term financial planning purposes beyond 2016/17 we assume 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 £158,000 in 2016/17**. This figure increases each year in line with inflation.
- 1.8.15 Members will appreciate that there is so much uncertainty that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections. The Director of Finance and Transformation is keen to stress (as mentioned at paragraph 1.8.9) that **depending on what happens to in particular NHB, further savings still could be required**. For medium term financial planning purposes we have assumed that the payments are reduced from six to five years and then to four years and that the cost of the scheme is funded in full. If all of the changes proposed in the consultation paper are introduced the NHB allocations would be less than that currently reflected in the MTFs and is an issue we will need to return to following the outcome of the consultation.
- 1.8.16 Turning back to the specific budget year 2016/17. The budget for 2016/17 includes a contribution to the general revenue reserve of £474,500 and a Summary of the Revenue Estimates Booklet should a council tax increase of £5 be approved is attached at **[Annex 12]**.
- 1.8.17 Cabinet is **RECOMMENDED** to:
- 1) Reaffirm the high level objectives of the MTFs, taking on board the amendment set out in paragraph 1.8.5.
 - 2) Note the updates to the MTFs as set out at **[Annex 11]** based on a council tax increase of £5 for 2016/17.
 - 3) Give guidance to Full Council as to the best way forward in updating the MTFs for the next ten-year period, and setting the council tax for 2016/17.

1.9 Savings and Transformation Strategy

- 1.9.1 Alongside the MTFs now sits a Savings and Transformation Strategy which was initially considered and recommended by Cabinet on 17 November 2015. 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.
- 1.9.2 As Members will recall, a number of key themes were identified, together with outline targets and an indicative year of implementation for each. The outline targets set out in the original version of the strategy (November) total £1,550,000 which is now insufficient to meet the funding gap. The Strategy has, therefore,

been updated and a new version appears in a report elsewhere on the agenda. Members will see from that separate report that the (original) 'in-service efficiencies' target of £200,000 has been met by the Management Team and has been incorporated into the budget setting process.

1.10 Collection Fund Adjustments

1.10.1 As the billing authority for the area, this Council has responsibility for maintaining the 'collection fund' accounts into which business rates and council tax are paid.

1.10.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to:

- Estimate the surplus / deficit on the collection fund for 2015/16 in respect of council tax and then share this between the major precepting authorities (including ourselves).
- Estimate the surplus / deficit on the collection fund for 2015/16 in respect of business rates and then share this between the relevant parties in accordance with the business rates retention scheme.

1.10.3 These are known as collection fund adjustments:

- The **surplus** on the collection fund in respect of council tax is estimated to be £984,801, of which our share is £147,917 [**Annex 13a**].
- The **deficit** on the collection fund in respect of business rates is estimated to be £4,973,117, of which our share is £1,989,247 [**Annex 13b**].

1.11 Parish Councils

1.11.1 For completeness, Cabinet is reminded that the Borough Council's expenditure is inclusive of the payments to Parish Councils under the Borough Council's Scheme of Financial Arrangements. Details of the Financial Arrangements for 2016/17 are set out at [**Annex 14**] for Members' information.

1.11.2 Also, the Parish Councils were notified on 7 December of their grant allocation in respect of the council tax support scheme. This funding now forms part of the overall Settlement and is not separately identified. The Council has passed on this funding to parish councils even though it is not separately identified; although some councils have chosen not to do so. As a result the funding available was increased by 0.4% (from £173,958 to £174,654) representing the increase in the Borough Council's Settlement including New Homes Bonus in the previous year. This is consistent with the approach adopted in respect of allocations under the Scheme of Financial Arrangements with Parish Councils.

1.11.3 In addition, the precepts of the Parish Councils are the Special Area expenses of the Borough Council for the purpose of setting the Council Tax. Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.12 Robustness of Estimates / Adequacy of Reserves

1.12.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annex 16]** sets out the projected general fund and general revenue reserve balances based on a council tax increase of £5.

1.12.2 The Local Government Act 2003 requires the Chief Financial Officer (in our case the Director of Finance and Transformation) to report to an authority, when making the statutory calculations required to determine its council tax, on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

1.12.3 What is required is the professional advice of the Director of Finance and Transformation on these two questions. This responsibility is discharged by way of a certified Statement.

1.12.4 The Director of Finance and Transformation advises that she is satisfied as to the Robustness of the Estimates and the Adequacy of **Reserves on the understanding that the savings target based on latest projections of £1.825m is delivered.**

1.12.5 A Statement covering the points above is appended at **[Annex 17]**. Members will note that overall the Director of Finance and Transformation signifies that, in her professional opinion, the estimates are robust and the level of reserves adequate.

1.12.6 A schedule of the reserves held by the Council at 1 April 2015 and proposed utilisation of those reserves to 31 March 2017 is provided at **[Annex 17]** Table A. As this Council's Chief Finance Officer, the Director of Finance and Transformation has undertaken a review of the earmarked reserves held and is satisfied as to the position depicted and will revisit the position as part of the closedown process for 2015/16.

1.12.7 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance and Transformation.

1.13 Calculation of Borough Council's Tax Requirement

1.13.1 The Council is required to calculate:

- Its aggregate expenditure which, for this purpose, includes our share of any Collection Fund deficit and the Parish Council precepts.

- Its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).
- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.13.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.17, the calculation is set out at **[Annex 18]**. It should be noted that, for this purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

1.14 Legal Implications

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

1.14.2 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.

1.15 Financial and Value for Money Considerations

1.15.1 As set out above.

1.16 Risk Assessment

1.16.1 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 guidance on assumptions obtained where appropriate.

1.16.2 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 Medium Term Financial Strategy.

- 1.16.3 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 2019/20, the MTFS assumes a 3% increase in council tax year on year whereas the threshold above which a referendum is to be held is currently the higher of 2% or £5.
- 1.16.4 The Settlement includes projected figures for New Homes Bonus which may be difficult to achieve and or potential further reductions would further add to the savings target.
- 1.16.5 There is so much uncertainty and volatility particularly in some of our major sources of income that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.16.6 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's Key Priorities and Improvement Actions.
- 1.16.7 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.17 Equality Impact Assessment

- 1.17.1 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.

1.18 Summary of Recommendations

- 1.18.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards (excluding West Malling short stay car park which is the subject of a petition).
- 2) Update the Capital Plan as set out in paragraph 1.5.15 and recommend that Council adopt the Capital Plan accordingly.
- 3) Endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 13 January and the Overview and Scrutiny Committee on 26 January and recommend to Council it be adopted.
- 4) Endorse the prudential indicators listed in paragraphs 1.6.5 and 1.6.9 and recommend to Council that they be adopted.
- 5) Note that for the financial year 2016/17 the Council's Minimum Revenue Provision as set out at paragraph 1.6.12 is nil.

- 6) Reaffirm the high level objectives of the MTFS, taking on board the amendment set out in paragraph 1.8.5.
- 7) Note the updates to the MTFS as set out at **[Annex 11]** based on a council tax increase of £5 for 2016/17.
- 8) Give guidance to Full Council as to the best way forward in updating the MTFS for the next ten-year period, and setting the council tax for 2016/17.
- 9) Note and endorse the Statement provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves.

Background papers:

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Nil

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Nicolas Heslop
Leader of the Council

Martin Coffin
Cabinet Member for Finance, Innovation and Property