

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

12 October 2016

Report of the Director of Finance and Transformation

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY UPDATE AND BUSINESS RATES POOLING

The report provides an update on the Medium Term Financial Strategy and projected funding gap and, in turn, associated savings targets.

It also updates Members on the Kent Business Rates Pool and seeks Cabinet's approval to confirm that TMBC remains a member of the Pool for 2017/18.

1.1 Medium Term Financial Strategy - 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. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities. The MTFS sets out the high level objectives the Council wishes to fulfil over the agreed time span. These are:

- To achieve a **balanced revenue budget** that delivers the Council's priorities by the end of the strategy period.
- To retain a **minimum of £2.0m** in the General Revenue Reserve by the end of the strategy period.
- Seek to set future increases in council tax having regard to the **guidelines** issued by the Secretary of State.
- Continue to **identify efficiency savings** and **opportunities for new or additional income sources** and to **seek appropriate reductions in service costs** in delivery of the Savings and Transformation Strategy approved by Members.

- Subject to there being sufficient resources within the capital reserve, set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (currently set at £200,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.1.2 The MTFs sets out, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans. Underneath the Strategy for the budget setting year sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.

1.2 Managing the Financial Challenges

1.2.1 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.

1.2.2 Members will recall that when setting the budget for 2016/17 in February 2016 projections at that time suggested a 'funding gap' between expenditure and income of circa £1.825 million. Based on the above projection it was further suggested that we break the savings target into three tranches (tranche one £625,000, tranche two £500,000 and tranche three £700,000 to be achieved by ideally the start of the year 2017/18, 2018/19 and 2021/22).

1.3 Medium Term Financial Strategy - Update

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

- The outcome of the forthcoming Spending Review due to be published on 23 November which will, if only at a high level, set out the future direction of the public finances.
- Those factors that have contributed towards addressing the 'funding gap' including the pending introduction of special expenses, establishment changes and service change, e.g. holiday activity programmes.
- Those factors that have taken matters in the 'wrong' direction including the termination of the Gateway Agreement by KCC, apprenticeship levy and recent cut in the bank rate.
- The level of council tax increase for 2017/18 above which the local authority would be required to seek the approval of their electorate via a

local referendum. For the year 2017/18 a referendum will be triggered where council tax is increased by the higher of 2% or £5. For the purposes of updating the MTFS up to 2019/20 an increase of £5 each year 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.

- The ongoing impact of the Business Rates Retention scheme and the Government's commitment to the introduction of a 100% Business Rates Retention scheme. The Council's actual business rates income is currently below the baseline set under the scheme and the Council has to meet a share of that shortfall up to a maximum of circa £158,000 in 2016/17. More pressing is what will our baseline funding level be on the introduction of 100% business rates retention and how this compares to that reflected in the MTFS and taking into account transfer of any new responsibilities?
- The award of New Homes Bonus (NHB) and continuing uncertainty over its future. NHB is a critical component of our overall government grant funding and what happens to this funding stream is, therefore, of particular interest and concern. The outcome of a consultation in March 2016 is still awaited. What we do need to recognise is that when changes are made to NHB, whenever that might be, the financial challenge could at best be difficult and at worst 'stark'.

1.3.2 The latest working version of the MTFS would suggest that good progress has been made in meeting this year's savings target of £625,000 and barring any unwelcome 'surprises' expect the target to be achieved as we move through the forthcoming budget setting process.

1.3.3 Although it is expected the savings target for this year will be achieved the second of the remaining two tranches of £500,000 and £700,000 has had to be **brought forward from 2021/22 to 2019/20** largely as a result of the recent cut in the bank rate and its consequent impact on investment income over the period of the MTFS.

1.3.4 In summary, the latest projected 'outstanding' funding gap post 2016/17 remains at £1.2 million with **potential for further reductions in NHB in the future**, but is to be addressed within a shorter timescale than previously envisaged:

- 1) Tranche 1 - £500,000 to be achieved by April 2018.
- 2) Tranche 2 - £700,000 to be achieved by April 2019 (previously April 2021).

1.3.5 Clearly, the MTFS will continue to be updated as we move through the 2017/18 budget cycle and as more information becomes available. One thing is clear a significant financial challenge remains to be addressed over the medium term.

1.4 Savings and Transformation Strategy

- 1.4.1 As Members are no doubt aware 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.
- 1.4.2 A number of key themes have been identified, together with outline targets and timescales which will need to be revisited and aligned with the latest projected 'funding gap' as part of the budget setting process.

1.5 Kent Business Rates Pool

- 1.5.1 The Council is a member of the Kent Business Rates Pool which comprises Kent County Council, Kent and Medway Fire and Rescue Authority and ten district councils. Sevenoaks and Dover District Councils are the only districts not in the Pool.
- 1.5.2 There are financial benefits to be gained from being in a pool in that the levy paid on business rates income above the baseline is lower or zero. Clearly, this is not something we have gained from to date whilst our business rates income is below the baseline, but that is not to say we will not benefit in the future.
- 1.5.3 As Members are aware, the Pool is responsible for meeting safety net payments which might be due to any one, or more, authorities in the Pool. There is a risk, albeit with a remote likelihood, that the Pool is not in a position to meet the safety net payments in full. On the other hand, the Government is responsible for meeting safety net payments to authorities not in a Pool and there is 100% guarantee of such payments being made.
- 1.5.4 This is the third iteration of a Kent Business Rates Pool, with the last variation being submitted in October last year. The correspondence from the Secretary of State giving his agreement to the current Pool appeared to suggest that approval of new applications should not be assumed for the future. Therefore, if TMBC decides to withdraw and the current Kent Pool disbanded, it is possible that a new iteration (without TMBC) may not be approved by the Secretary of State.
- 1.5.5 Through the Pool, additional funds have been retained within the county of Kent which would otherwise have been returned to central government. Whilst this does not directly benefit TMBC due to the fact we are in a safety net position, there are 'indirect' benefits due to the fact that Kent County Council receives additional funding. If the Pool is disbanded, this potential to retain additional funds within Kent would be forfeited for the future. Therefore, should we take the risk of 'rocking the boat' for Kent as a whole?

- 1.5.6 All other members of the Kent Pool are above or on baseline and there is currently no indication that they would drop into safety net. Provided that the majority remain above baseline, the risk of TMBC's safety net payment not being met in full is very slim.
- 1.5.7 On balance, bearing in mind the 'risks and rewards' set out above, Members may feel that the Council should continue to be a member of the Kent Business Rates Pool in 2017/18.

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 Two key questions remain, what will our business rates baseline be on the implementation of 100% business rates retention; and where, and to what extent, does New Homes Bonus feature in future government funding?
- 1.7.2 The impact of 'Brexit' on Council finances / financial assumptions in respect of inflation, interest rates, income levels, etc. and the scale of the impact over the medium term is uncertain and difficult to determine.

1.8 Risk Assessment

- 1.8.1 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.
- 1.8.2 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.
- 1.8.3 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.
- 1.8.4 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 the impact of Welfare Reform changes

(Universal Credit). In addition, beyond 2019/20, the MTF5 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% and £5.

- 1.8.5 The projected figures for New Homes Bonus are at risk of further revision downwards which would further add to the savings targets.
- 1.8.6 There is a risk, albeit likelihood remote, that the Kent Business Rates Pool is not in a position to meet safety net payment obligations in full.

1.9 Equality Impact Assessment

- 1.9.1 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 at this stage, although as savings options emerge, equality impact assessments will need to be carried out.

1.10 Recommendations

1.10.1 Cabinet is **RECOMMENDED** to:

- 1) **note** the good progress made in meeting the savings target for 2016/17, but **recognising** that there is a significant financial challenge remaining to be addressed over the medium term; and
- 2) **confirm** that the Council continue to be a member of the Kent Business Rates Pool in 2017/18.

Background papers:

Nil

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