

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

13 February 2014

Report of the Chief Executive and Director of Finance and Transformation

Part 1- Public

A MORE DETAILED SUPPLEMENTARY REPORT ON “SETTING THE BUDGET FOR 2014/15” AND A REPORT ON “SETTING THE COUNCIL TAX FOR 2014/15” WILL BE CIRCULATED BEFORE THE MEETING ON 13 FEBRUARY

Matters for Recommendation to Council

1 SETTING THE BUDGET FOR 2014/15

This is a short report to update Members on issues relating to the setting of the Budget for 2014/15. More detailed supplementary reports in liaison with the Leader of the Council and the Cabinet Member for Finance, Property and Innovation will be circulated before the meeting on the 13 February.

1.1 **Medium Term Financial Strategy**

1.1.1 The Council's Medium Term Financial Strategy covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future.

1.1.2 Since it was introduced in 2003 **the Medium Term Financial Strategy has been instrumental in protecting the services that are provided by the Council and it has enabled us to take a more measured approach than would have been possible without it.** However, it is not a panacea which can insulate the Council from the severe cuts in government funding.

1.1.3 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.

1.1.4 Members are fully aware that the Council continues to face a significant financial challenge as a result of the Coalition Government's budget deficit reduction

programme which has resulted in a reduction in the financial support it can offer to local government and the current economic climate, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.2 Revenue Estimates 2014/15

- 1.2.1 The draft Revenue Estimates for 2014/15 were presented to the meeting of the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Board and of the Committee is to assist both the Cabinet and the Council in the preparation of the Budget within the context of the Medium Term Financial Strategy and the Council's priorities. At the Finance, Innovation and Property Advisory Board meeting the Revenue Estimates as presented were endorsed. Any adjustments made following the meeting of the Overview and Scrutiny Committee will be reflected in the supplementary report to be circulated before the meeting on 13 February.
- 1.2.2 During this cycle of meetings Members have deliberated on whether or not the 'council tax freeze' grant on offer from the Government for 2014/15 should be accepted and Members of the Cabinet, and the Full Council, will need to deliberate (and ultimately make a decision on) the best course of action for Tonbridge & Malling Borough Council. From a **technical point of view** whether the Council makes a decision to accept the 'freeze' grant or not affects the 'Summary Total' for the 2014/15 Estimates. Therefore, for completeness and transparency, the table below illustrates the position for both scenarios.

	Revised Estimate 2013/14 £	Original Estimate 2014/15 (no freeze) £	Original Estimate 2014/15 (freeze) £
Summary Total reported to Finance, Innovation and Property Advisory Board on 8 January	13,494,300	13,419,200	13,419,200
Council Tax Freeze Grant 2014/15			(87,300)
Current Summary Total	13,494,300	13,419,200	13,331,900

1.3 Local Government Finance Settlement

- 1.3.1 On 18 December 2013, provisional Settlement Funding Assessments for 2014/15 were published along with indicative figures for 2015/16. Each local authority's actual allocation for 2014/15 is expected to be confirmed shortly.
- 1.3.2 Our provisional Settlement Funding Assessment for 2014/15 is £4,356,517. This represents a cash decrease of £676,738 or 13.4% when compared to the equivalent figure of £5,033,255 in 2013/14. Included in the Settlement Funding Assessment is the parish councils' indicative allocation in respect of the council tax support scheme, however, it is not separately identified as it was in 2012/13.
- 1.3.3 In addition, the Council's grant award under the New Homes Bonus (NHB) scheme in 2014/15 is £2,395,874 compared to £1,636,217 in 2013/14. Grant funding including NHB is, therefore, £6,752,391. A breakdown of the total grant funding into the various funding streams is set out in the table below.

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

- 1.3.4 In recent years the government has referred to the increase / (decrease) in an authority's **spending power**; and this is what tends to be quoted in media coverage. The calculation of the spending power is rather complex but, for **simplicity purposes**, although it is not exactly the same, TMBC's spending power can be taken to be the percentage increase / (decrease) in **total** grant funding. As can be seen from the table above our total grant funding increased by 1.2% and the increase in spending power calculated by the government is given as 1.1%. Members will note that the increase in overall funding and spending power is attributable to the fact that our grant award under the NHB more than negates the decrease in our Settlement Funding Assessment.
- 1.3.5 This outcome is not entirely surprising because the Council has been doing exactly what is being asked of it by the government: **facilitating housing investment and, in turn, stimulating economic growth**. The number of new dwellings completed and included in the calculation for NHB in 2014/15 was extremely good and surpassed our own 'realistic' expectation. This was,

therefore, a 'good' year; however the risk is that this is an extremely volatile form of funding and other years may not prove to be so good!

- 1.3.6 Our concern has always been what happens when NHB in its current form 'ceases' and/or it is replaced by something else, and we hit the metaphorical 'cliff edge'. Putting to one side NHB, it is worth noting that, **of the twelve district councils in Kent, Tonbridge & Malling Borough Council continues to receive the lowest Settlement Funding Assessment both in total and per head.**
- 1.3.7 The provisional Settlement also gives indicative figures for 2015/16 – to assist us in forward planning. Our indicative Settlement Funding Assessment for 2015/16 is £3,684,595. This represents a cash decrease of £671,922 or 15.4% when compared to the equivalent figure of £4,356,517 in 2014/15. Again, the Settlement Funding Assessment includes the parish councils' indicative allocation in respect of the council tax support scheme.
- 1.3.8 In addition, the Council's grant award under the NHB scheme in 2015/16 is estimated to be £2,943,073 compared to £2,395,874 in 2014/15. (The 'actual' NHB for 2015/16 will not be known until returns have been compiled during the course of next year regarding completions, so this is truly an estimate at this point.)
- 1.3.9 **Total** grant funding including NHB is, therefore, anticipated to be £6,627,668 in 2015/16; which is a 1.8% reduction on the 2014/15 total funding. A breakdown of the total grant funding into the various funding streams is set out in the table below.

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

- 1.3.10 Also, 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. As Members are aware, we are awaiting details of the referendum threshold limit from the Secretary of State for 2014/15. Whilst this was originally thought to be 2%, recent press coverage has suggested this could be 1.5% or even lower. In addition, there is a lack of clarity, at the time

of writing this report, as to whether the payment of any special levies is 'in or 'out' of the calculation.

1.4 Capital Plan Review

- 1.4.1 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. The revenue reserve for capital schemes provides the main source of funding for existing and any new schemes that are introduced into the Capital Plan.
- 1.4.2 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of our assets which deliver services as well as recurring capital expenditure.
- 1.4.3 In order to get to this position there is now an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance. Members are reminded that in setting the budget for 2013/14 that allowance was set at £320,000. It should be noted that the Council in due course will need to borrow to fund such expenditure.
- 1.4.4 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 8 January followed by the Overview and Scrutiny Committee on 28 January.
- 1.4.5 At the Finance, Innovation and Property Advisory Board meeting Members endorsed the recommendations as detailed in the report. Due to the timing of meetings any adjustments made following the meeting of the Overview and Scrutiny Committee will be reflected in the supplementary report to be circulated before the meeting on 13 February. The recommendations set out in the report to the Finance, Innovation and Property Advisory Board were:
- 1) Cabinet be asked to endorse the Capital Plan (List A) position as shown in Annex 2 of the Capital Plan Booklet.
 - 2) Cabinet be asked to amend List C as detailed in paragraph 1.5.1 of the report.
 - 3) Cabinet be asked to select those schemes listed in paragraph 1.6.3 for evaluation.
 - 4) Cabinet be asked to endorse:

The transfer of the schemes listed in paragraph 1.7.3 from List C to List B:

In the case of the river wall, Wouldham scheme a specific earmarked reserve is established in the sum of £700,000 and that this scheme sits

outside the annual allowance of £320,000 with an implementation date for capital plan purposes of 2015/16.

- 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 Supplementary Reports

- 1.5.1 Detailed supplementary reports on "Setting the Budget for 2014/15" and on "Setting the Council Tax for 2014/15" will be circulated to Members in advance of the meeting to enable the Cabinet to make appropriate recommendations to Council.

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 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.

1.8.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.8.5 In addition, not identifying and implementing the requisite savings will put at risk the integrity of the Medium Term Financial Strategy.

1.9 Further information will be provided in a supplementary report which will be circulated prior to the meeting.

Background papers:

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Nil

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