

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

24 January 2017

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 2017/18

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 2017/18 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 2017/18. 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 9 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 9 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2017/18 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 14 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 2016/17 and the Estimates for 2017/18 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 Overall, the draft Estimates for 2017/18 show a decrease over the Original Estimates for 2016/17 of £511,233 prior to making a contribution to/from the General Revenue Reserve. 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.
 - 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.

- 1.2.2 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.
- 1.2.3 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.
- 1.2.4 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).
- 1.2.5 The MTFs will need to be updated and rolled forward as part of the 2017/18 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 1.7.

1.3 Provisional Local Government Finance Settlement

- 1.3.1 On 15 December 2016, the Secretary of State for the Department for Communities and Local Government, Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement for 2017/18. The provisional figures are expected to be confirmed in late January/early February 2017.
- 1.3.2 This time last year the government offered any council that wished to take it up a multi-year settlement for the four year period 2016/17 to 2019/20 and provided as a result illustrative allocations up to 2019/20. This Council accepted the offer of a multi-year settlement and as you might expect the provisional Settlement Funding Assessment (SFA) for 2017/18 and illustrative allocations up to 2019/20 are not that dissimilar to the indicative figures set out this time last year.
- 1.3.3 Our provisional SFA (core funding) for the year 2016/17 and 2017/18 and illustrative allocations for 2018/19 and 2019/20 can be seen in the table below. In 2019/20 our SFA is projected to be £1,299,311. This represents a cash decrease of £1,597,085 or 55.1% when compared to the figure of £2,896,396 in 2016/17.

1.3.4 In addition, the outcome of the consultation on New Homes Bonus (NHB) to sharpen the incentive for housing growth and releasing funding for other spending priorities such as adult social care will see:

- 1) The length of NHB payments reduced in length from 6 years to 5 years in 2017/18 and 4 years from 2018/19.
- 2) The introduction of a national baseline for housing growth of 0.4% below which NHB will not be paid.

1.3.5 The Council's NHB for the year 2016/17 and 2017/18 and illustrative figures for 2018/19 and 2019/20 under the revised scheme can also be seen in the table below. In 2019/20 NHB is projected to be £2,556,424 (dependent on growth – a more conservative estimate would be £2,296,134). Using the figures set out in the settlement consultation, this represents a cash decrease of £1,291,456 or 33.6% when compared to £3,847,880 in 2016/17. **However, NHB will continue to fall beyond 2019/20 as the changes work their way through the system such that, by 2021/22, it is estimated that NHB could be in the order of £1.4 million.** It is important to remember that New Homes Bonus is not part of what is termed core funding and as such is in full or in part at risk indefinitely (potential further reductions likely). Unsurprisingly this is of particular concern and I will return to it later.

1.3.6 In 2019/20 Total Grant Funding is projected to be £3,855,735. This represents a cash decrease of £2,888,541 or 42.8% when compared to the figure of £6,744,276 in 2016/17.

	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Local Share of Business Rates	2,106,525	2,149,532	2,218,688	2,297,607
Tariff Adjustment				(998,296)
Revenue Support Grant	655,042			
Transition Grant	134,829	117,201		
Settlement Funding Assessment	2,896,396	2,266,733	2,218,688	1,299,311
Change over SR Period (£)				(1,597,085)
Change over SR Period (%)				-55.1%
New Homes Bonus ##	3,847,880	3,490,234	2,664,362	2,556,424
Total Grant Funding	6,744,276	5,756,967	4,883,050	3,855,735
Change over SR Period (£)				(2,888,541)
Change over SR Period (%)				-42.8%

Note: These are the figures set out in the settlement consultation which we believe are simply projections based on previous growth levels, and should be read in conjunction with paragraph 1.3.5 above.

- 1.3.7 In recent years the government has referred to the increase / (decrease) in an authority's core spending power and this is what tends to be quoted in media coverage. Using 2015/16 as the base year the decrease in core spending power over the spending review period calculated by the government is 8% and in cash terms is £1.25m.
- 1.3.8 The provisional local government finance settlement 2017/18 was the subject of consultation and the return date for responses to the consultation was 13 January 2017. The paper can be found at the following link:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577947/Provisional_2017-2018_local_government_finance_settlement_consultation.pdf
- 1.3.9 The provisional SFA for 2017/18 and illustrative allocations up to 2019/20 were not that dissimilar to the indicative figures set out this time last year. As a result, it was considered a response on this aspect of the consultation was not required. Other than to again highlight the fact that the cumulative change in our SFA between 2016/17 and 2019/20 (excluding transition grant) is 53% compared to 32.4% and 21.6% across shire districts and all authorities respectively. The outcome of the consultation on NHB is a **different matter**.
- 1.3.10 **[Annex 1]** sets out the key issues highlighted for Members of the Finance Innovation and Property Advisory Board on 4 January 2017, together with the draft response to the consultation presented to Members of that Board.
- 1.3.11 In overview, the changes to the NHB scheme bring added funding pressure for district councils and increased risk of financial sustainability. Some particular points to note are given below.
- 1) Redistributing funding to authorities with responsibility for adult social care places further financial pressure on those authorities from whom that funding is taken. It, in turn, leads them to have to make significant reductions to the local services they provide and communities rely on; and more than that puts financial sustainability in doubt. First and foremost is this the way to fund local services - i.e. 'robbing Peter to pay Paul'? In recognition of the additional funding pressure this transfers, the council tax referendum principles should be withdrawn or at the very least the higher threshold should apply to district councils too.
 - 2) NHB is no different to business rates in that it is used to fund the provision of local services as was overall grant funding before the introduction of NHB. As a result, I believe we should argue that NHB should be seen as core funding and not at risk indefinitely. In 2010/11, prior to the introduction

of NHB, the Council's grant settlement was £5.8m. To this is to be added our grant allocation on the introduction of Local Council Tax Support in April 2013 of £0.8m. Total grant funding £6.6m. As mentioned at paragraph 1.3.5, NHB will continue to fall up to 2021/22 as the changes work their way through the system by which time it is estimated that NHB could be in the order of £1.4m. Income from business rates is also estimated to be around £1.4m at that time. Total grant funding £2.8m. This represents a cash decrease of £3.8m (57.6%) including NHB or £5.2m (78.8%) excluding NHB when compared to the £6.6m received some ten years earlier. **What this demonstrates is that if NHB was to be withdrawn and not replaced with a similar level of funding the reduction in grant suffered by the Council would be close to 80% which cannot be right and why it should be part of core funding.**

- 1.3.12 Members are asked to note that for medium term financial planning purposes it is assumed that from 2021/22 the Council will receive via NHB (or its replacement) £1.4m plus an inflationary uplift thereafter. An alternative would be to remove NHB as a funding source within our MTFs; however, the consequential savings targets would be so extreme that it would make achievement of them virtually out of reach.

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 For the year 2017/18 a referendum will be triggered where council tax is increased by the higher of **2%** or **£5**. Referendum principles will not be extended to town and parish councils at this time, but still could be in the future.

1.5 Draft Capital Plan

- 1.5.1 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
 - to reduce expenditure and or generate income.
- 1.5.2 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 9 February for endorsement by Council. With this in mind Members are advised that other than loss of investment income on the capital allowance the revenue consequences of new capital schemes **have yet to be incorporated within the Estimates**.

1.5.3 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.

1.5.4 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 2020/21 the Council will need to borrow to fund such expenditure. For 2016/17 the annual capital allowance was set at £200,000 and it is proposed that the annual allowance continue to be set at that level.

1.6 Consultation with Non-Domestic (Business) Ratepayers

1.6.1 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.

1.6.2 Any comments or representations received from the consultees will be reported to Members during the budget process as appropriate.

1.7 Medium Term Financial Strategy Update

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

- The outcome of the recent Spending Review on 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 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 2021/22 an increase of £5 each year has been assumed and thereafter a 3% increase in council tax year on year. To put this into context, 1% currently equates to about £95,000.
- 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 £161,000 in 2017/18. For medium term financial planning purposes beyond 2017/18 we continue to assume that our actual business rates income is equal to the baseline set. 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 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 the consultation will see NHB continue to fall up to 2021/22 as the changes work their way through the system by which time it is estimated that NHB could be in the order of £1.4m and require further savings to be achieved. Further changes will only add to what is already a very difficult financial outlook and at worse put financial sustainability at risk.

1.7.2 Members will recall we set ourselves a savings target for this year of £625,000. To date savings in the order of £883,000 have been achieved. However, after taking into account other factors impacting on the MTFS that either take the 'funding gap' in the right or wrong direction, **net savings in the order of £625,000 have been achieved** when compiling the Revenue Estimates for 2017/18.

1.7.3 Although the savings target for this year has been 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 cut in the bank rate and its consequent impact on investment income over the period of the MTFS. In addition, the changes made to the NHB scheme require further savings to be achieved in the order of £400,000 taking the projected 'outstanding' funding gap to £1.6m with potential for further reductions in NHB in the future. The number, scale and timing of each of the savings tranches is the subject of consideration.

- 1.7.4 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.

1.8 Savings and Transformation Strategy

- 1.8.1 As Members are no doubt aware alongside the MTFS now sits a Savings and Transformation Strategy (STS). 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.

- 1.8.2 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. An updated version of the STS will be presented within the Budget report to Cabinet.

1.9 Finance, Innovation and Property Advisory Board

- 1.9.1 The draft Revenue Estimates were considered in detail at the meeting of the Finance, Innovation and Property Advisory Board on 4 January where a number of officers were available to answer detailed questions.
- 1.9.2 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.
- 1.9.3 The Finance, Innovation and Property Advisory Board endorsed the draft Revenue Estimates as presented.

1.10 Legal Implications

- 1.10.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.10.2 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.

1.11 Financial and Value for Money Considerations

- 1.11.1 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?
- 1.11.2 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.

1.12 Risk Assessment

- 1.12.1 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.
- 1.12.2 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.
- 1.12.3 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.
- 1.12.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.
- 1.12.5 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 the impact of Welfare Reform changes (Universal Credit). In addition, beyond 2021/22, 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% and £5.
- 1.12.6 The projected figures for New Homes Bonus are at risk of further revision downwards which would further add to the savings targets.

1.13 Equality Impact Assessment

1.13.1 Where there is a perceived impact on end users an equality impact assessment has been carried out and as further savings options emerge, further equality impact assessments will need to be carried out as appropriate.

1.14 Recommendations

1.14.1 The Committee is requested to:

- 1) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 9 February.
- 2) Recommend to Cabinet that the Savings and Transformation Strategy is updated to reflect the latest projected 'funding gap' as part of the budget setting process.

Background papers:

Nil

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Sharon Shelton
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