TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

09 February 2017

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 2017/18.

1.1 Introduction and Foreword

1.1.1 At the Full Council meeting on 14 February, Members will determine both the Budget and the level of council tax for 2017/18. The detailed Estimates for 2017/18 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 2017/18; 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 2017/18 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. For the year 2017/18 a referendum will be triggered where council tax is increased by **2%, or more than 2% and more than £5**. For the purposes of preparing the budget papers up to 2022/23 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.

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 £625,000 this financial year, and this has been achieved. Whilst this is clearly 'good news' the cut in the bank rate, amongst other things, together with the changes made to the NHB scheme (with potential for further reductions in NHB in the future) require **further savings** to be achieved in the order of £400,000 taking the **projected 'outstanding' funding gap to £1.6m** to be addressed in a **shorter timescale** than previously envisaged should a council tax increase of £5 be approved.

1.1.5 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 2017/18
- Fees and Charges
- Capital Plan
- Treasury Management and Annual Investment Strategy
- Consultation with Non-Domestic (Business) Ratepayers
- Medium Term Financial Strategy Update
- Savings and Transformation Strategy
- Collection Fund Adjustments
- Special Expenses and Parish Council Precepts
- Robustness of Estimates / Adequacy of Reserves
- Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

1.2.1 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. At the time of finalising this report for agenda publication, we have not received the final local government finance settlement. **Figures contained within this report are, therefore, based on the provisional settlement**. We do not anticipate there being any significant difference in the 'final' figures. Members will, of course, be updated as appropriate.

1.2.2 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 therefore, as might be expected, the 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.

1.2.3 Our 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 equivalent figure of £2,896,396 in 2016/17.

1.2.4 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.

1.2.5 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 £2,317,000). 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.

1.2.6 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 equivalent 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 1.2.5 above.

1.2.7 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. The decrease in core spending power over the spending review period calculated by the government is 8% and in cash terms £1.25m.

1.2.8 In overview, the Settlement, alongside the changes to NHB, brings added funding pressure for district councils and the services they provide and could put financial sustainability at risk.

1.2.9 **Of the twelve district councils in Kent, Tonbridge & Malling Borough Council receives either the lowest or one of the lowest Settlement Funding Assessments both in total and per head**. A comparison of our Settlement Funding Assessments over the period 2017/18 to 2019/20 with those of other Kent district councils is provided at **[Annex 1a]**.

1.2.10 Attached at **[Annex 1b]** for Members' information is a copy of the Referendums Principles setting out 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.

1.3 Revenue Estimates 2017/18

1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2017/18 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. Adjustments include the request from KCC to withdraw the notice to terminate the Tonbridge Gateway Agreement and the reprofiling of contributions to the Revenue Reserve for Capital Schemes over the period of the MTFS.

	Revised Estimate 2016/17 £	**Original Estimate 2017/18 £**
Summary Total reported to Finance, Innovation and Property Advisory Board on 4 January 2017	9,065,550	10,322,800
Revenue Reserve for Capital Schemes		700,000
Tonbridge Gateway		549,500
DWP Benefits Administration Grant		9,050
Superannuation Lump Sum Payment		4,000
Penalty Charge Notices		(15,000)
DCLG Council Tax Support Admin Grant		(26,150)
Invest to Save Reserve		(200,000)
Current Summary Total	**9,065,550**	**11,344,200**

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. 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 Cabinet is accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards.

1.5 Capital Plan

1.5.1 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 4 January followed by the Overview and Scrutiny Committee on 24 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 2020/21 the Council will need to borrow to fund such expenditure. The annual capital allowance is set at £200,000 and it is proposed that the annual allowance continue to be set at that level.

1.5.8 In addition, the Invest to Save Reserve, subject to there being sufficient funds available and where deemed appropriate, could be used to fund in part or in full capital plan schemes.

1.5.9 The Finance, Innovation and Property Advisory Board and the Overview 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]**.

2) 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 two 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.

1.5.10 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 £23,500 in 2017/18 and £47,000 in subsequent years. The initial revenue costs attached to the virtual desktop infrastructure project is expected to be more than recouped over time as alternative IT arrangements are progressed.

Scheme	**Capital Cost £**	**Revenue Impact 2017/18 £**	**Revenue Impact 2018/19 £**
Leybourne Lakes Country Park – Car Park Extension	17,000	(1,000)	(2,000)
Racecourse Sportsground – Riverside Revetment	120,000	2,000	4,000
IT Initiatives: Council Chamber Conference System	95,000	9,000	18,000
IT Initiatives: Virtual Desktop Infrastructure	200,000	13,500	27,000
Total	**432,000**	**23,500**	**47,000**

1.5.11 Two of the schemes detailed above are to be funded in part by way of government grant or external funding totalling £38,000 and the virtual desktop infrastructure project is to be funded from the Invest to Save Reserve; and the balance of £194,000 from the capital allowance.

1.5.12 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.5.10 is attached at **[Annex 7]**.

1.5.13 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]**.

1.5.14 Accordingly, it is **RECOMMENDED** that:

1) Cabinet approves the position of the existing Capital Plan (List A) as summarised at **[Annex 3]**.

2) Cabinet approves that the schemes listed in **[Annex 4]** are added to List C or deleted from List C as detailed.

3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year including two 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 4 January and Overview and Scrutiny committee on 24 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 2017/18.

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 2017/18.

1.6.5 A summary of the indicators appears in the table below.

Treasury Management Prudential Indicators					
Prudential Indicator	**2015/16 Actual £'000**	**2016/17 Revised Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'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	13,468 55.6%	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 2017/18		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%.					
2015/16 actual -1.90%	2016/17 estimated -2.07%	2017/18 estimated -1.10%	2018/19 estimated -0.97%	2019/20 estimated -1.30%	2020/21 estimated -1.86%	2021/22 estimated -2.50%	2022/23 estimated -3.11%
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]**.					
Total		2017/18 estimated £ 0.48	2018/19 estimated £ 0.48	2019/20 estimated £ 0.00	2020/21 estimated £ (0.56)	2021/22 estimated £ 0.00	2022/23 estimated £ 0.00
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]**.					
2015/16 actual £'000 3,287	2016/17 estimated £'000 2,355	2017/18 estimated £'000 3,128	2018/19 estimated £'000 2,682	2019/20 estimated £'000 1,637	2020/21 estimated £'000 2,050	2021/22 estimated £'000 1,358	2022/23 estimated £'000 2,193

1.6.10 We, therefore, **RECOMMEND** that for the financial year 2017/18 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 2020/21.

1.6.13 Members are asked to NOTE that for the financial year 2017/18 our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic (Business) 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 20 January 2017. ***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.

- 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 (STS) 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.

1.8.5 The budget for 2017/18 is, naturally, the starting point for updating the MTFS. Referring to paragraph 1.3.2, Members will note that the Summary Total for the 2016/17 Revised Estimates is £9,065,550; and for the 2017/18 Estimates is £11,344,200 and is used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]**.

1.8.6 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 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 2%, or more than 2% and more than £5. For the purposes of updating the MTFS up to 2022/23 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 a 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.

1.8.7 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.

1.8.8 Although the savings target for this year has been achieved the cut in the bank rate, amongst other things, together with the changes made to the NHB scheme (with potential for further reductions in NHB in the future) require **further savings** to be achieved in the order of £400,000 taking the **projected ‘outstanding’ funding gap to £1.6m** and to be addressed in a shorter timescale than previously envisaged.

1.8.9 As in previous iterations of the MTFS the updated savings target can be broken down into tranches. The proposed scale and timing of each of the savings tranches is given below.

1) Tranche 1 - £650,000 to be achieved by April 2018 (previously £500,000).

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

3) Tranche 3 - £250,000 to be achieved by April 2021.

1.8.10 One thing is clear a significant financial challenge remains to be addressed over the short to medium term.

1.8.11 **[Annex 11a]** sets out the picture for the MTFS.

1.8.12 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 1.8.8) that **<u>depending on what happens not least to NHB in the future</u>, further savings could be required.**

1.8.13 Cabinet is **RECOMMENDED** to:

1) Reaffirm the high level objectives of the MTFS set out at paragraph 1.8.4 above.

2) Note and endorse the updated MTFS **[Annex 11a]** including the proposed scale and timing of each of the savings tranches set out at paragraph 1.8.9.

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 2017/18.

1.9 Savings and Transformation Strategy

1.9.1 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.

1.9.2 When the STS was adopted by Full Council in February 2016, a number of key themes were identified, together with outline targets and timescales which need to be revisited and aligned with the latest projected ‘funding gap’.

1.9.3 An updated copy of the STS including revised outline targets and timescales for each of the themes totalling £1.6m can be found at **[Annex 11b]**.

1.9.4 Cabinet is requested to endorse the updates made to the STS, and **RECOMMEND** its adoption by Full Council as part of the budget process.

1.9.5 Turning back to the specific budget year 2017/18. The budget for 2017/18 includes a contribution **to** the general revenue reserve of £434,500 and a Summary of the Revenue Estimates Booklet is attached at **[Annex 12]**.

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 2016/17 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 2016/17 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 £989,763, of which our share is £148,267 **[Annex 13a]**.

- The **deficit** on the collection fund in respect of business rates is estimated to be £29,785 of which our share is £11,914 **[Annex 13b]**.

1.11 Special Expenses and Parish Council Precepts

1.11.1 Members are aware that, following the decision by Full Council on 1 November 2016, a Special Expenses Scheme **[Annex 14a]** is being introduced from the 1 April 2017, and the Financial Arrangements with Parish Councils (FAPC) Scheme revoked from the same date.

1.11.2 Details of the Special Expenses for 2017/18 are set out at **[Annex 14b]**. The basic amount of council tax of £181.61 plus the special expenses band D charge, where applicable, gives the total Borough Council band D charge for that area.

1.11.3 When publishing the Borough Council's level of council tax at Band D for "official" purposes in accordance with the prescribed methodology from the Department for Communities and Local Government (DCLG), we are required to aggregate all expenditure (as if special expenses did not exist) and calculate a ***notional*** Band D figure. (This is so that the DCLG can see that the referendum principles have been adhered to).

1.11.4 The resultant published (notional) council tax at Band D for 2017/18 is £197.51, being £5 higher than the published Band D council tax for 2016/17. As Members will note, no resident will actually pay this exact amount as the Borough Council's Band D – unless it is by coincidence. Inevitably, this will cause some confusion with the public.

1.11.5 Cabinet is requested to **ENDORSE** the special expenses calculated in accordance with the Special Expenses Scheme and set out in **[Annex 14b].**

1.11.6 Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**. Members will be aware that, due to the cessation of the FAPC grants scheme and the council tax reduction scheme payments, it was always expected that parish council precepts would increase beyond the normal inflationary pressures.

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 an increase of £5 to the notional council tax level.

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 £1.6m 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 2016 and proposed utilisation of those reserves to 31 March 2018 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 2016/17.

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.

Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.14, 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 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?

1.15.2 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.

1.16 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 advice 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 MTFS needs to be reviewed and updated at least annually and in the current climate the Savings and Transformation Strategy regularly reviewed by Management Team. In addition, not identifying and implementing the requisite savings will put at risk the integrity of the MTFS.

1.16.3 The increased uncertainty and volatility particularly in some of our major sources of income (business rates and New Homes Bonus) and more recently by Brexit make financial planning that more difficult with increased risk of significant variances compared to projections.

1.16.4 The projected figures for NHB are at risk of further revision downwards which would further add to the savings target.

1.16.5 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 2022/23, 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 2%, or more than 2% and more than £5.

1.16.6 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's priorities and corporate objectives.

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.

1.16.8 At the time of finalising this report for agenda publication, we have not received the final local government finance settlement. **Figures contained within this report are, therefore, based on the provisional settlement**. We do not anticipate there being any significant difference in the 'final' figures. Members will, of course, be updated as appropriate.

1.17 Equality Impact Assessment

1.17.1 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.

1.18 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.

2) Update the Capital Plan as set out in paragraph 1.5.14 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 4 January and the Overview and Scrutiny Committee on 24 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 2017/18 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 (paragraph 1.8.4. refers).

7) Note and endorse the updated MTFS **[Annex 11a]** including the proposed scale and timing of each of the savings tranches set out at paragraph 1.8.9.

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 2017/18.

9) Endorse the updates made to the Savings and Transformation Strategy, and recommend that Full Council adopts it as part of the Budget setting process **[Annex 11b]**.

10) Endorse the special expenses calculated in accordance with the Special Expenses Scheme and set out in **[Annex 14b]**.

11) 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:

Nil

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Nicolas Heslop Leader of the Council	Martin Coffin Cabinet Member for Finance, Innovation and Property and Deputy Executive Leader