TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

08 February 2018

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 2018/19.

1.1 Introduction and Foreword

1.1.1 At the Full Council meeting on 20 February, Members will determine both the Budget and the level of council tax for 2018/19. The detailed Estimates for 2018/19 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 1.4 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 2018/19; 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 2018/19 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 2018/19 a referendum will be triggered where council tax is increased by **3%, or more than 3% and more than £5**. The Secretary of State advised that he had increased the threshold to 3% (from 2%) as this was the current level of inflation.

1.1.4 Members are aware that our MTFS assumes council tax increases to the higher of the thresholds. Until now, an increase of £5 is the higher threshold for TMBC representing a 2.53% increase in council tax. Increasing council tax by 3% in line with inflation in 2018/19 generates just shy of a further 0.5% increase over and above our original forecast in the MTFS. For the purposes of preparing the budget papers and updating the MTFS an increase of circa 3% in 2018/19 has been assumed followed by an increase of £5 each year up to 2026/27 and 3% in 2027/28. To put this into context, 1% currently equates to about £100,000.

1.1.5 Undoubtedly the Council continues to face a significant financial challenge in respect of identifying and implementing savings over the coming years. When setting the budget for 2017/18 in February 2017 projections at that time suggested a ‘funding gap’ between expenditure and income of circa £1.6m and set a target of achieving savings of £650,000 this financial year, and this to all intents and purposes has been achieved.

1.1.6 However, as Members are aware, there are always other factors that can impact on the MTFS that either takes the ‘funding gap’ in the right or wrong direction. When these factors are taken into account the **latest projected ‘outstanding’ funding gap is £1.0m**.

1.1.7 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members’ attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:

- Local Government Finance Settlement
- Fair Funding Review and ‘Negative RSG’ Consultation
- Revenue Estimates 2018/19
- 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 19 December 2017, the Secretary of State for the, then, Department for Communities and Local Government, Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement for 2018/19. 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 In 2016 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 as a result provided 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 2018/19 and illustrative allocation for 2019/20 are not that dissimilar to the indicative figures set out in the multi-year settlement.

1.2.3 Our SFA for the year 2018/19 and illustrative allocation for 2019/20 can be seen in the table below. In 2019/20 our SFA is projected to be £1,264,921. This represents a cash decrease of £1,631,475 or 56.3% when compared to the equivalent figure of £2,896,396 in 2016/17.

1.2.4 In addition, Members are reminded of the changes made this time last year in respect of New Homes Bonus (NHB) which saw:

1) The length of NHB payments reduced in length from 6 years to 5 years in 2017/18 and to 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 2018/19 and illustrative figure for 2019/20 under the revised scheme can also be seen in the table below.

	2016/17 £	**2017/18 £**	**2018/19 £**	**2019/20 £**
Local Share of Business Rates	2,106,525	2,149,532	2,214,110	2,263,217
Tariff Adjustment ('Negative RSG')				(998,296)
Revenue Support Grant	655,042			
Transition Grant	134,829	117,201		
Settlement Funding Assessment	**2,896,396**	**2,266,733**	**2,214,110**	**1,264,921**
Change over SR Period (£)				(1,631,475)
Change over SR Period (%)				-56.3%

New Homes Bonus ##	3,847,880	3,490,134	3,334,128	3,401,545
Total Grant Funding	**6,744,276**	**5,756,867**	**5,548,238**	**4,666,466**
Change over SR Period (£)				(2,077,810)
Change over SR Period (%)				-30.8%

Note: Figures as 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 1.2.7 below.

1.2.6 The scale of housing delivery in the 12 month period used to determine NHB allocations for the year 2018/19 was exceptional at around 1,000. To put this into context the historic annual average is between 500 and 600 properties. As a result the Council's NHB for 2018/19 is £3,334,128 compared to £2,666,000 estimated this time last year. On the assumption there are no retrospective changes to the scheme this is a welcome windfall affording the opportunity to set aside monies to fund in part (or in full) particular initiatives – for example capital investment required in respect of the retender of the refuse, recycling and street cleansing contract. However, herein lies the dilemma – the phrase 'subject to no further changes' is very important. The period over which payments are made can be reduced, the baseline increased or both at any time; and worse, the scheme can be withdrawn and the associated funding redistributed in some other way. In other words, NHB is at risk indefinitely and which, unsurprisingly, is of particular concern.

1.2.7 That said, in 2019/20 NHB is projected to be £3,401,545 (dependent on growth – a more conservative estimate would be £3.0 million) representing a cash decrease of £446,335 or 11.6% when compared to £3,847,880 in 2016/17. However, NHB will continue to fall beyond 2019/20 as the changes made this time last year work their way through the system and this year's exceptional housing delivery falls out of the calculation such that, by 2022/23, it is estimated that NHB could be in the order of £1.5m based on the current scheme.

1.2.8 **Members are asked to note that for medium term financial planning purposes it is assumed that from 2020/21 the scheme will reduce in length to three years and from 2021/22 the Council will receive via NHB and or alternative funding source in the order of £1.3m rising steadily thereafter to around £1.4m by 2027/28.** An alternative 'strategy' 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.

1.2.9 In 2019/20 the government project total grant funding to be £4,666,466 representing a cash decrease of £2,077,810 or 30.8% when compared to the equivalent figure of £6,744,276 in 2016/17. The government in recent years 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 in cash terms is £200,000 or 1.2% (based on what are considered to be optimistic council tax income projections and NHB allocations).

1.2.10 **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 for 2018/19 and 2019/20 with those of other Kent district councils is provided at **[Annex 1a]**.

1.2.11 Attached at **[Annex 1b]** for Members' information is a copy of the Referendums Principles setting out the level of council tax increase for 2018/19 above which the local authority would be required to seek the approval of their electorate via a local referendum.

1.2.12 Announced alongside the provisional settlement was the outcome of the **bids for pilot status** in respect of 100% business rates retention. Members may recall a proposal for Kent and Medway authorities to put in a bid. A bid was subsequently submitted and I am very pleased to advise Members that the Secretary of State announced in his speech that the Kent and Medway bid has been successful.

1.2.13 In all, 10 pilots were successful. Based on the estimates prepared during the bidding process, it is expected that circa £25 million will come to the Kent and Medway pilot with the sum being divided into two discrete 'pots'. One for financial sustainability paid at individual council level, and the second for economic growth paid on a cluster basis.

1.2.14 In terms of financial stability, and based on the estimates prepared during the bidding process, a sum of circa £500,000 would come to TMBC in 2018/19. The intention is to invest this sum in a property investment fund. Furthermore, an allocation of circa £1.0 million to the West Kent Cluster (Sevenoaks, Tunbridge Wells and Tonbridge & Malling areas) towards supporting housing and commercial growth is anticipated.

1.2.15 This is clearly very good news for Kent and Medway as a whole.

1.3 Fair Funding Review and 'Negative RSG' Consultation

1.3.1 Alongside the provisional settlement, the Secretary of State also announced a technical consultation entitled *"Fair funding review: a review of relative needs and resources"*. The paper can be found at the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf

1.3.2 The consultation will assist the newly named Ministry for Housing, Communities and Local Government (MHCLG) with the development of a new funding allocation mechanism for local government, intended to be in place for 2020/21.

1.3.3 According to the MHCLG's document, the review will:

- "**set new baseline funding allocations** for local authorities;

- deliver an **up-to-date assessment of the relative needs of local authorities**. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; the review will determine what the redistribution should be;

- **examine the relative resources of local authorities**. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils;

- focus initially on the **services currently funded through the local government finance settlement**; and

- be **developed through close collaboration with local government** to seek views on the right approach."

1.3.4 The consultation commenced on 19 December and will end on 12 March. In view of the timescales involved and the programming of meetings, it is **recommended that delegated authority be given** to the Director of Finance and Transformation in liaison with the Leader and Cabinet Member for Finance, Innovation and Property to respond to the consultation.

1.3.5 In addition, the Secretary of State announced that there will be a consultation taking place in Spring 2018 on the Negative RSG (tariff) adjustments, with the outcome feeding into the 2019/20 local government finance settlement. The Secretary of State stated *"I can confirm that my department will be looking at fair and affordable options for dealing with Negative RSG".* However, for now, the negative RSG amounts remain within the 2019/20 individual authority figures as can be seen in the table at paragraph 1.2.5.

1.4 Revenue Estimates 2018/19

1.4.1 As mentioned in the Foreword, the draft Revenue Estimates for 2018/19 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.

1.4.2 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 investment of the estimated additional income from the Kent and Medway business rates pilot and the estimated loss of income claim in respect of the works to be carried out at Larkfield Leisure Centre funded from the Tonbridge and Malling Leisure Trust Reserve.

	Revised Estimate 2017/18 £	**Original Estimate 2018/19 £**
Summary Total reported to Finance, Innovation and Property Advisory Board on 3 January 2018	11,366,200	12,096,750
Property Investment Fund Reserve		500,000
Larkfield Leisure Centre Ventilation and Boiler Replacement – Loss of Income Claim		250,000
Establishment Changes		34,100
New Homes Bonus		9,850
Kent Safeguarding Children Board		1,500
Kent Resilience Forum		900
Tonbridge and Malling Leisure Trust Reserve		(250,000)
Management Savings	(116,650)	
Under-indexing Business Rates Multiplier	(27,700)	(46,150)
Investment Income		(15,000)
Grounds Maintenance Contract		(10,000)
Audit Fees		(4,000)
Wayleave Agreement	(1,250)	(1,250)
Current Summary Total	**11,220,600**	**12,566,700**

1.5 Fees and Charges

1.5.1 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.

1.5.2 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]**.

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

1.6 Capital Plan

1.6.1 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 3 January followed by the Overview and Scrutiny Committee on 23 January.

1.6.2 Members' attention was drawn to the 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.

1.6.3 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.

1.6.4 The subsequent recommendations where appropriate have regard to these criteria.

1.6.5 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.

1.6.6 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.

1.6.7 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 2021/22 the Council may 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.

1.6.8 In addition, the Invest to Save Reserve or Transformation 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.

1.6.9 The Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers. The recommendations were:

1) Cabinet be asked to endorse the Capital Plan (List A) position as shown in Annex 2 of the Capital Plan Booklet summarised at **[Annex 3]** and note the contribution to the savings target as a result of the reassessment of Disabled Facilities Grant funding.

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. On this occasion, one new scheme has been recommended and for Fast-Track evaluation. In addition, there are five schemes selected for evaluation in a previous Review that are either on hold following evaluation, subject to further evaluation or yet to be evaluated as follows: Tonbridge Farm Sportsground – Provision of Toilets, Tonbridge Racecourse Sportsground – Swimming Pool Bridge, Leybourne Lakes Country Park – Facility Improvements, River Medway – Riverside Lighting, Tonbridge and Financial Services Document Management Software.

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.

1.6.10 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 consequences is £10,100 in 2018/19 and £20,200 in subsequent years.

Scheme	**Capital Cost £**	**Revenue Impact**	
		2018/19 £	**2019/20 £**
Larkfield Leisure Centre – Ventilation System and Boiler Replacement	505,000	10,100	20,200
Racecourse Sportsground – Rugby Pitch Drainage Improvements	25,000		
Haysden Country Park – Car Park Extension	30,000		
Haysden Country Park – Sewage Treatment Facility	75,000		
Tonbridge Cemetery – Path Works	15,000		

Tonbridge to Penshurst Cycle Route Refurbishment	60,000		
Total	**710,000**	**10,100**	**20,200**

1.6.11 The schemes detailed above, other than the ventilation system and boiler replacement, are to be funded by way of developer contributions. The ventilation system and boiler replacement is to be met in part from the annual capital allowance. The balance is to be met by increasing the contribution to the revenue reserve for capital schemes in 2017/18 funded from the better than budgeted performance reflected in the 2017/18 revised estimates. The revenue consequences exclude an estimated loss of income claim in the sum of £250,000 to be funded from the Tonbridge and Malling Leisure Trust reserve.

1.6.12 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.6.10 is attached at **[Annex 7]**.

1.6.13 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]**.

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

1) Cabinet approves the position of the existing Capital Plan (List A) as summarised at **[Annex 3]** and note the contribution to the savings target as a result of the reassessment of Disabled Facilities Grant funding.

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. On this occasion, one new scheme has been recommended and 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 3 January and Overview and Scrutiny Committee on 23 January.

1.7 Treasury Management and Annual Investment Strategy

1.7.1 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).

1.7.2 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 2018/19.

1.7.3 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.

1.7.4 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 2018/19.

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

Treasury Management Prudential Indicators					
Prudential Indicator	**2016/17 Actual £'000**	**2017/18 Revised Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 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	13,098 43.5%	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 funds	
The maturity structure for new fixed rate borrowing during 2018/19		Upper Limit	Lower Limit
Under 12 months		100%	NIL
Over 12 months		NIL	NIL

1.7.6 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.

1.7.7 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.

1.7.8 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.

1.7.9 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%.					
2016/17 actual -2.33%	2017/18 estimated -2.34%	2018/19 estimated -2.89%	2019/20 estimated -4.32%	2020/21 estimated -4.83%	2021/22 estimated -5.08%	2022/23 estimated -5.72%	2023/24 estimated -6.24%
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		2018/19 estimated £ 0.20	2019/20 estimated £ 0.20	2020/21 estimated £ 0.00	2021/22 estimated £ 0.00	2022/23 estimated £ 0.00	2023/24 estimated £ 0.00
3.	Actual and	This indicator is based on the updated capital plan					

	estimated capital expenditure	position. The figures are based on those shown in **[Annex 8]**.					
2016/17 actual £'000	2017/18 estimated £'000	2018/19 estimated £'000	2019/20 estimated £'000	2020/21 estimated £'000	2021/22 estimated £'000	2022/23 estimated £'000	2023/24 estimated £'000
1,632	2,669	4,336	1,740	2,127	1,364	2,144	1,421

1.7.10 We, therefore, **RECOMMEND** that for the financial year 2018/19 the prudential indicators listed in paragraphs 1.7.5 and 1.7.9 be recommended to Council for adoption.

1.7.11 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.

1.7.12 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 before 2021/22.

1.7.13 Members are asked to NOTE that for the financial year 2018/19 our Minimum Revenue Provision is nil.

1.8 Consultation with Non-Domestic (Business) Ratepayers

1.8.1 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 19 January 2018. ***Cabinet is advised that no comments have been received.***

1.9 Medium Term Financial Strategy Update

1.9.1 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.

1.9.2 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.

1.9.3 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.

1.9.4 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.

1.9.5 The budget for 2018/19 is, naturally, the starting point for updating the MTFS. Referring to paragraph 1.4.2, Members will note that the Summary Total for the 2017/18 Revised Estimates is £11,220,600; and for the 2018/19 Estimates is £12,566,700 and is used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]**.

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

- The Local Government Finance Settlement announcement.

- Those factors that have contributed towards addressing the ‘funding gap’ including the renegotiation of the Tonbridge and Malling Leisure Trust service fee, investment return on proceeds from the pending sale of Council owned assets and establishment changes.

- Those factors that have taken matters in the ‘wrong’ direction including pay inflation, resource pressures as a result of legislative changes and extending a council tax increase of £5 each year further into the future than this time last year.

- The level of council tax increase for 2018/19 above which the local authority would be required to seek the approval of their electorate via a local referendum. For the year 2018/19 a referendum will be triggered where council tax is increased by 3%, or more than 3% and more than £5. For the purposes of updating the MTFS an increase of circa 3% in 2018/19 has been assumed followed by an increase of £5 each year up to 2026/27 and 3% in 2027/28. To put this into context, 1% currently equates to about £100,000.

- The ongoing impact of the Business Rates Retention scheme and the proposal to move to a 100% Business Rates Retention scheme. The Council’s actual business rates income has, thus far, been below the baseline set under the scheme and the Council has to meet a share of that shortfall up to a maximum of circa £166,000 in 2018/19 (or would do if we were not part of the 2018/19 Kent and Medway pilot referred to earlier). Current projections suggest we are getting ever closer to the baseline set and at the time of writing assuming all things remain equal, we could find ourselves above baseline at the year-end for 2017/18. Were this to be the case, any achievement above baseline would be reflected in the 2018/19 surplus/deficit calculation. For medium term financial planning purposes it is assumed that from 2021/22 the Council will be above the baseline set and benefitting as a result from additional business rates income. The question remains as to what will our baseline funding level be under an ‘eventual’ 100% Business Rates Retention scheme – (noting that the Secretary of State announced a plan to move to a 75% retention scheme in 2020/21) – and how this then 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. For medium term financial planning purposes it is assumed that from 2020/21 the scheme will reduce in length to three years (reduced from six years to four years previously) and from 2021/22 the Council will receive via NHB and or alternative funding source in the order of £1.3m rising steadily thereafter to around £1.4m by the end of the period. Changes over and above that assumed will only add to what is already a very difficult financial outlook and at worse put financial sustainability at risk. The question remains as to the extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

1.9.7 Members will recall we set ourselves a **savings target for this year of £650,000** and from the Finance Update in September that at that time around half of that sum had been identified. Since then further savings have been identified (e.g. potential investment return on the proceeds of land sales approved by Council; reduction in Council's own contribution to Disabled Facilities Grants; and establishment changes reported to General Purposes Committee in November) and to date **savings in the order of £646,000 have been achieved** (a fraction shy of the target set for the year). This is clearly excellent news given the position we were in in September.

1.9.8 **However**, as Members are aware, there are always other factors that can impact on the MTFS that either takes the 'funding gap' in the right or wrong direction. When these factors are taken into account (most of which are outside our control) **net savings in the order of £600,000 have been achieved** when compiling the Revenue Estimates for 2018/19 and the difference of £50,000 will need to be reflected in the MTFS and the revised savings targets this generates.

1.9.9 This time last year the projected 'funding gap' was put at £1.6m and a year on, all other things being equal, was expected to be £950,000. **The latest projected 'outstanding' funding gap is £1,000,000** (£1,600,000 - £600,000).

1.9.10 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 - £350,000 to be achieved by April 2019 (previously £700,000).

2) Tranche 2 - £350,000 to be achieved by April 2020 (previously nil).

3) Tranche 3 - £300,000 to be achieved by April 2021 (previously £250,000).

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

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

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

1.9.13 Cabinet is **RECOMMENDED** to:

1) Reaffirm the high level objectives of the MTFS set out at paragraph 1.9.4 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 1.9.10.

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 2018/19.

1.10 Savings and Transformation Strategy

1.10.1 Alongside the MTFS 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.

1.10.2 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’.

1.10.3 Before turning to the update of the STS leading us into the period 2018/19 to 2020/21, it is worth reflecting on the cumulative savings that have been achieved since the inception of the Strategy in 2016. **[Annex 11b]** sets out the individual savings achieved in each year, by theme. In summary form, this is as follows:

Theme	Savings Identified by April 2016 £000	Savings Identified by April 2017 £000	Savings Identified by April 2018 £000	Total Savings Identified £000
Income Generation & Cost Recovery	60	146	88	294
In-Service Efficiencies	200	77	50	327
Service Change & Reduction	0	100	3	103
Contracts	0	0	200	200
Organisation Structure Change	15	129	119	263
Partnership Funding	0	431	0	431
Asset Management	0	0	186	186
Total	275	883	646	1804

1.10.4 Members will note that just over £1.8m in savings or new income has been identified since inception, averaging £600,000 per year. The most significant items contributing to that total are the outcome of the 'Fairer Charging' project which resulted in the introduction of a Special Expenses Scheme (shown in the summary table above within the 'Partnership' theme) and the significant savings made through service and staffing reviews.

1.10.5 The theme that has achieved the least amount of savings is, not surprisingly, 'Service Change & Reduction', given that it has been Members' clear objective to protect services for as long as possible. However, with other areas now perhaps reaching a level of 'exhaustion', Management Team is of the view that this area now needs greater emphasis and challenge, including through the Overview and Scrutiny programme.

1.10.6 An updated copy of the STS, recommended by Management Team, including revised outline targets and timescales for each of the themes totalling £1.0m can be found at **[Annex 11c]**. As mentioned in paragraph 1.10.5, greater emphasis has been put on the theme 'Service Change & Reduction' as we move forward. In addition, a significant allocation has been made against the theme 'Contracts' given that we are now in the throes of retendering the Refuse and Recycling contract and that Members have already agreed in principle to introduce a charging system for green waste.

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

1.10.8 Turning back to the specific budget year 2018/19. The budget for 2018/19 includes a contribution **to** the general revenue reserve of £433,400 and a Summary of the Revenue Estimates Booklet is attached at **[Annex 12]**.

1.11 Collection Fund Adjustments

1.11.1 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.

1.11.2 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 2017/18 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 2017/18 in respect of business rates and then share this between the relevant parties in accordance with the business rates retention scheme.

1.11.3 These are known as collection fund adjustments:

- The **surplus** on the collection fund in respect of council tax is estimated to be £818,893, of which our share is £124,226 **[Annex 13a]**.

- The **surplus** on the collection fund in respect of business rates is estimated to be £15,308 of which our share is £6,123 **[Annex 13b]**.

1.12 Special Expenses and Parish Council Precepts

1.12.1 A Special Expenses Scheme was introduced on the 1 April 2017 **[Annex 14a]**.

1.12.2 Details of the Special Expenses for 2018/19 are set out at **[Annex 14b]**. The basic amount of council tax of £187.73 plus the special expenses Band D charge, where applicable, gives the total Borough Council Band D charge for that area.

1.12.3 When publishing the Borough Council's level of council tax at Band D for "official" purposes in accordance with the prescribed methodology from the Ministry for Housing, Communities and Local Government (MHCLG), 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 MHCLG can see that the referendum principles have been adhered to).

1.12.4 The resultant published (notional) council tax at Band D for 2018/19 is £203.42, being £5.91 or 2.99% higher than the published Band D council tax for 2017/18. As Members will note, no resident will actually pay this exact amount as the Borough Council's Band D – unless it is by coincidence.

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

1.12.6 Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.13 Robustness of Estimates / Adequacy of Reserves

1.13.1 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 £5.91 to the notional council tax level.

1.13.2 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.

1.13.3 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.

1.13.4 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 £1.0m is delivered**.

1.13.5 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.

1.13.6 A schedule of the reserves held by the Council at 1 April 2017 and proposed utilisation of those reserves to 31 March 2019 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 2017/18.

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

1.14 Calculation of Borough Council's Tax Requirement

1.14.1 The Council is required to calculate:

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

- Its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).

- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.14.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.9.14, 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.

1.15 Legal Implications

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

1.15.2 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.

1.16 Financial and Value for Money Considerations

1.16.1 Two key questions remain. What will our business rates baseline be under an 'eventual' 100% Business Rates Retention scheme and how this then compares to that reflected in the MTFS taking into account transfer of any new responsibilities; and the extent to which NHB will feature in future government grant funding and if replaced what level of funding would we receive in its place?

1.16.2 The impact of current economic conditions on Council finances / financial assumptions in respect of inflation, interest rates, income levels, etc. and the scale of the impact over the medium term are uncertain and difficult to determine.

1.17 Risk Assessment

1.17.1 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.

1.17.2 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 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.

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

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

1.17.5 Members are reminded that there are factors not reflected in or throughout the duration of the MTFS, e.g. the impact of Welfare Reform changes (Universal Credit). In addition, beyond 2026/27, the MTFS assumes a 3% increase in council tax.

1.17.6 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.

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

1.17.8 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.

1.18 Equality Impact Assessment

1.18.1 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.

1.19 Summary of Recommendations

1.19.1 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 1.6.14 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 3 January and the Overview and Scrutiny Committee on 23 January and recommend to Council it be adopted.

4) Endorse the prudential indicators listed in paragraphs 1.7.5 and 1.7.9 and recommend to Council that they be adopted.

5) Note that for the financial year 2018/19 the Council's Minimum Revenue Provision as set out at paragraph 1.7.12 is nil.

6) Reaffirm the high level objectives of the MTFS (paragraph 1.9.4. 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 1.9.10.

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 2018/19.

9) Endorse the updates made to the Savings and Transformation Strategy, and recommend its adoption by Full Council as part of the Budget setting process **[Annex 11c]**.

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.

12) Endorse that delegated authority be given to the Director of Finance and Transformation in liaison with the Leader and Cabinet Member for Finance, Innovation and Property to respond to the technical consultation entitled "*Fair funding review: a review of relative needs and resources*".

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