

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

10 October 2018

### Report of the Director of Finance & Transformation and Chief Executive

#### Part 1- Public

#### Matters for Information

#### 1 MEDIUM TERM FINANCIAL STRATEGY UPDATE AND BID FOR 75% BUSINESS RATES RETENTION PILOT

The report provides an update on the Medium Term Financial Strategy and projected funding gap ahead of the forthcoming budget cycle. It also updates Members on the bid for the 75% Business Rates Retention Pilot.

##### 1.1 Medium Term Financial Strategy – Introduction

1.1.1 As Members are aware, the Council's current Medium Term Financial Strategy (MTFS) covers both revenue and capital budgets over a rolling ten-year period, and it is this Strategy that underpins the budget setting process each year and over the strategy period. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities. The MTFS sets out the high level objectives the Council wishes to fulfil over the agreed time span. These are:

- To achieve a **balanced revenue budget** that delivers the Council's priorities by the end of the strategy period.
- To retain a **minimum of £2.0m** in the General Revenue Reserve by the end of the strategy period.
- Seek to set future increases in council tax having regard to the **guidelines** issued by the Secretary of State.
- Continue to **identify efficiency savings and opportunities for new or additional income sources** and to **seek appropriate reductions in service costs** in delivery of the Savings and Transformation Strategy approved by Members.
- Subject to there being sufficient resources within the capital reserve, set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (currently set at £200,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

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

## **1.2 Managing the Financial Challenges**

- 1.2.1 Members are fully aware of the significant financial challenge 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 offered to local government. We believe, however, that our MTFS is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way, but with ever increasing pressure this is becoming progressively more difficult.
- 1.2.2 Members will recall that when setting the budget for 2018/19 in February 2018 projections at that time suggested that there was a 'funding gap' between expenditure and income of circa £1 million. This 'gap' was translated into three savings tranches of £350,000, £350,000 and £300,000 to be achieved over three consecutive years commencing in 2018/19.
- 1.2.3 It had been the aspiration that the tendering of the waste services contract through a partnership arrangement would contribute towards the first of the savings tranches, and this is alluded to later.

## **1.3 Local Government Finance Settlement 2019/20 and Council Tax Referendum Principles**

- 1.3.1 The Local Government Finance Settlement for 2019/20 is expected to be very similar to that set out in the multi-year settlement for the four year period 2016/17 to 2019/20. This is not surprising given that we are now entering the final year of the multi-year settlement.
- 1.3.2 However, as reported to the Finance, Innovation and Property Advisory Board on 17 September, the government proposes to remove 'Negative RSG' from the settlement in 2019/20 and meet the cost from their share of business rates income. This is still subject to confirmation, but as Cabinet are aware, in our case this would mean we would not need to pay 'Negative RSG' of just under £1m in 2019/20. This would be very welcome given the financial challenges, albeit it should be remembered that this is a "one-off" adjustment.
- 1.3.3 For the year 2019/20 it is proposed (although not yet confirmed) that a referendum will be triggered where council tax is increased by 3%, or more than 3% and more than £5. Increasing council tax by circa 3% in 2019/20 generates 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 2019/20 has been assumed followed by an increase of £5 year on year thereafter.

## **1.4 New Homes Bonus**

- 1.4.1 In terms of New Homes Bonus, the government has indicated that it is likely to increase the baseline below which New Homes Bonus (NHB) will not be paid. Currently, the baseline is 0.4%, meaning that about 230 homes need to be delivered before any NHB is paid. No indication has yet been given as to what the increase is likely to be, but for planning purposes we are assuming that the baseline will increase to 0.6% in 2019/20 (equating to circa 350 new dwellings needing to be delivered before any NHB is paid). If this is translated into cash sums, NHB is anticipated to be in the order of £3m in 2019/20 – although this is of course dependent on the scale and speed of housing delivery.
- 1.4.2 Beyond 2019/20, NHB will continue to fall as changes that have already been made to the scheme work their way through the system and the above-average housing delivery falls out of the calculation. Indeed, it is estimated that by 2023/24 NHB could be in the order of £850,000 assuming that no further changes are made to the scheme. This is a dramatic change to the sums we have so far enjoyed. In other words, NHB remains at risk indefinitely.
- 1.4.3 Cabinet has in the past acknowledged the concerns we have expressed about the future of NHB and indeed the (necessary) reliance we have placed on this source of funding to support the revenue budget. In updating the MTFS, in consultation with Management Team, we have sought to mitigate in part this concern.

## **1.5 2019 Spending Review and Fair Funding Review**

- 1.5.1 Beyond 2019/20, as reported to the Finance, Innovation and Property Advisory Board on 17 September, the 2019 Spending Review will determine the overall funding envelope for local government over the Spending Review period.
- 1.5.2 The Fair Funding Review will determine how that funding is allocated to individual councils and, in turn, will determine business rates baselines and baseline funding levels.
- 1.5.3 It is very difficult to predict how TMBC might fair in that process at this stage and therefore, as Members will appreciate, this period of 'limbo' does not aid financial planning. Undoubtedly it will be some time before the outcome of the above process is known. As a result, the year 2019/20 can effectively be seen as a 'holding year' and we need to await the outcome of the Review to gain a clearer picture for the future.

## **1.6 Updating the MTFS**

- 1.6.1 Notwithstanding all that, we still need to plan ahead as best we can.
- 1.6.2 Members are aware from recent reports to both the Street Scene and Environment Services Advisory Board and the Finance, Innovation and Property Advisory Board that it is hoped that the new waste services contract (including

introducing a charge for garden waste) can make a substantive contribution to the funding gap. Effectively, the target set for delivery by April 2019 can be assumed to have been met.

- 1.6.3 **However, for the avoidance of doubt, it is important to emphasise that irrespective of the scale of that contribution, a funding gap will remain to be addressed over the medium term.** The work being undertaken by the Overview and Scrutiny Committee will therefore be extremely valuable in addressing any further targets we need to achieve.
- 1.6.4 There are some budgetary pressures, particularly with regard to the upkeep of our leisure centres, which will place demands on our finances. For example, there are currently unfunded works required to the roof at Larkfield Leisure Centre which on top of the capital scheme to replace the ventilation system and boiler, together with the associated loss of income claim, requires us to find in excess of £1.7m. The potential windfall from the non-payment of the 'Negative RSG ' mentioned at paragraph 1.3.2 may help to address some of these shortfalls in funding, but for now we must await the outcome of the Settlement.
- 1.6.5 These detailed matters will be addressed during the budget cycle, but for this report we need to turn back to the "bigger picture".
- 1.6.6 For medium term financial planning purposes, in consultation with Management Team we are assuming that, from 2020/21, 'core' grant funding (i.e. business rates baseline plus some element of 'growth performance') will be in the order of £2m uplifted by inflation year on year; and we will continue to support the revenue budget with a contribution of NHB (or its replacement) funding of £600,000 per annum.
- 1.6.7 Members will note that this assumed contribution from NHB is less than the figures we have presented in paragraph 1.4 above. This is a deliberate choice in order to reduce the reliance we place on NHB given the risk we attach to it.
- 1.6.8 If overall funding is in excess of £2.6m as we hope it could be at least in the early years, sums over and above this amount can be used to establish a 'stabilisation reserve' going forward to assist in meeting future savings targets and/or help towards managing risk.
- 1.6.9 As mentioned at paragraph 1.1.1, our MTFS currently assumes that we will hold a minimum of £2m in the General Revenue Reserve. Given the uncertainty about local government financing and the unknown impact of issues such as Brexit to both our income and expenditure, **we will be recommending through the budget cycle that we increase the minimum balance to £3m.**
- 1.6.10 Taking all these matters into account, at this point we anticipate that there will be a funding gap over the medium term of £500,000 to £600,000. Whilst we do not anticipate that this will need to be met in consecutive years, we do expect that we

will be recommending setting a target to be identified during the financial year 2019/20 of around £100,000.

## **1.7 Savings and Transformation Strategy**

- 1.7.1 The Savings and Transformation Strategy will need to be updated in the light of the information set out above. As mentioned at paragraph 1.6.2, it can be assumed that, subject to the finalisation of the award of the waste services contract and the pending introduction of garden waste charges, that the first tranche has been met.
- 1.7.2 During the budget cycle we will need to reset the Strategy, agree the timescales and the targets by theme. Our recommendation, in consultation with Management Team, is that during 2019/20 we need to be identifying savings in the order of £100,000 in readiness for 2020/21.

## **1.8 Kent-wide 75% Business Rates Retention Pilot Bid**

- 1.8.1 At the meeting of the Finance, Innovation and Property Advisory Board in September, Members were advised of the invitation to apply to pilot 75% business rates retention in 2019-20. Bids for new pilots had to be submitted by 25 September 2018, and it is expected that successful applications will be announced before or alongside the provisional Local Government Finance Settlement.
- 1.8.2 We are pleased to advise that the 12 Kent district councils, Kent County Council, Medway Council and the Kent and Medway Fire and Rescue Authority have agreed to and submitted a joint bid for pilot status following the success of the current year's pilot.
- 1.8.3 Were it to be successful, we anticipate a financial sustainability payment to TMBC of circa £370,000 (based on current estimates). There would also be a growth fund for West Kent in the order of £500,000.
- 1.8.4 We now await the outcome of that bid.
- 1.8.5 Members should note that if the bid is unsuccessful, we have requested that we revert to the 'pool' arrangement that existed prior to the current 'pilot' being established.

## **1.9 Legal Implications**

- 1.9.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.9.2 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.

## **1.10 Financial and Value for Money Considerations**

- 1.10.1 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.
- 1.10.2 The preparation of the 2018 /19 revised and 2019/20 original estimates will, amongst other things, have a direct impact on the MTFS and as such will be refined and updated as we move through the forthcoming budget cycle.
- 1.10.3 Due to the pending 2019 Spending Review and Fair Funding Review, 2019/20 should be viewed as a holding year.
- 1.10.4 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.

## **1.11 Risk Assessment**

- 1.11.1 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool the Strategy needs to be reviewed and updated at least annually and in the current climate regularly reviewed by Management Team.
- 1.11.2 The increased uncertainty and volatility particularly in some of our major sources of income (business rates and New Homes Bonus) make financial planning that more difficult with the increased risk of significant variances compared to projections.
- 1.11.3 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

## **1.12 Policy Considerations**

- 1.12.1 Business Continuity/Resilience
- 1.12.2 Community

Background papers:  
Nil

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