

**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**FINANCE, INNOVATION and PROPERTY ADVISORY BOARD**

**09 January 2019**

**Report of the Director of Finance and Transformation**

**Part 1- Public**

**Matters for Recommendation to Cabinet - Council Decision**

<p><b>NOTE: THE REVISED ESTIMATES FOR 2018/19 AND THE ESTIMATES FOR 2019/20 ARE CONTAINED IN A SEPARATE BOOKLET CIRCULATED WITH THE AGENDA</b></p>
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**1 REVENUE ESTIMATES 2019/20**

**The Council has a statutory duty to set the level of council tax for the forthcoming financial year by 11 March. Under the Budget and Policy Framework Rules of the Constitution, the Cabinet is responsible for formulating initial draft proposals in respect of the Budget. The role of this Advisory Board is to assist both the Cabinet and the Council in the preparation of the Budget for 2019/20 within the context of the Medium Term Financial Strategy and the Council's priorities.**

**1.1 Introduction**

1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget for 2019/20. This report is intended as the basis for recommendations from this Board to the Cabinet.

1.1.2 The proposals will also be referred to the Overview and Scrutiny Committee for further consideration and advice. The Overview and Scrutiny Committee has a meeting on the 22 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 14 February to consider the recommendations of this Board and the Overview and Scrutiny Committee and, in addition, take into account the Council's final grant settlement.

1.1.3 At that special meeting on the 14 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2019/20 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 19 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.

1.1.4 The role of this Advisory Board is to consider in detail both the Revised Estimates for 2018/19 and the Estimates for 2019/20 within the context of the Medium Term Financial Strategy and the Council's priorities. For completeness, details of how we are updating the Medium Term Financial Strategy are contained within this report for information.

## 1.2 Medium Term Financial Strategy

1.2.1 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 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 and are currently:

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

1.2.2 As mentioned in the report to Cabinet on 10 October 2018, it is proposed that the minimum General Revenue Reserve balance **be increased from £2.0m to £3.0m** to recognise the continuing uncertainty and volatility surrounding local government finances with the increased risk of significant variances compared to projections; and the consequent implications on the level of reserves held.

1.2.3 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.

- 1.2.4 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 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 this is becoming progressively more difficult.
- 1.2.5 Members will recall that when setting the budget for 2018/19 in February 2018 projections at that time suggested a funding gap between expenditure and income of circa £1 million. This 'gap' was translated into three savings and transformation contributions of £350,000, £350,000 and £300,000 to be achieved over three consecutive years commencing 2018/19.
- 1.2.6 The new waste services contract was expected to make a substantive contribution towards the funding gap which to all intents and purposes it has. However, for the avoidance of doubt and as was acknowledged at the Cabinet meeting in October, a not insignificant funding gap remains to be addressed over the period of the MTFS.
- 1.2.7 The MTFS will need to be updated and rolled forward as part of the 2019/20 budget setting process. Further information about this, together with the issues that Cabinet will need to address when updating the MTFS are set out later in this report at paragraph 1.13.

### 1.3 Provisional Local Government Finance Settlement

#### *Settlement Funding Assessment*

- 1.3.1 On 13 December 2018, the Secretary of State for the Ministry of Housing, Communities and Local Government, James Brokenshire MP, made a statement to Parliament on the provisional local government finance settlement for 2019/20. The provisional figures are expected to be confirmed in January / February 2019.
- 1.3.2 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. This Council accepted the offer of a multi-year settlement. The provisional Settlement Funding Assessment (SFA) for 2019/20 is not that dissimilar to that set out in the multi-year settlement **except** for the removal of 'negative RSG' which the government is to meet from their share of business rates income. In our case 'negative RSG' in 2019/20 was circa £998,000 which we would otherwise had to pay over and as such is clearly welcome, **albeit it should be remembered this is a "one-off" adjustment.** Funding beyond 2019/20 **dependent** on the outcome of the 2019 Spending Review and the Fair Funding Review.
- 1.3.3 Our provisional SFA for the year 2019/20 as shown in the table below is £2,264,850 (budget £1,265,000). This represents a cash decrease of £631,546 or 21.8% when compared to the equivalent figure of £2,896,396 in 2016/17.

### *New Homes Bonus*

- 1.3.4 The baseline below which New Homes Bonus (NHB) will not be paid is to be held at 0.4% for the year 2019/20. The Council's NHB for the year 2019/20 as shown in the table below is £3,457,428 (budget £2,998,000). This represents a cash decrease of £390,452 or 10.1% when compared to the equivalent figure of £3,847,880 in 2016/17.
- 1.3.5 Beyond 2019/20, NHB will continue to fall as changes made to the scheme work their way through the system and the recent above average housing delivery falls out of the calculation. It is estimated that by 2023/24 NHB could be around £1.8m assuming no further changes are made to the scheme. This is a dramatic change to the sums we have so far enjoyed and where NHB remains at **risk indefinitely**. It is our ambition to restructure the MTFs so it is not as reliant on NHB or its replacement particularly when read in conjunction with the paragraph below.
- 1.3.6 Recent comments reported in local government press that the Treasury do not see NHB as having worked could well see its demise from 2020/21. However, this seems to be in sharp contrast to the statement made by the Secretary of State for the Ministry of Housing, Communities and Local Government who said in his statement to the House that he was maintaining the NHB baseline at 0.4% in 2019/20 in order to ensure that the government continues to reward councils for delivering homes. We await developments in this regard.

### *Overall Grant Funding*

- 1.3.7 Overall, grant funding including NHB for the year 2019/20 as shown in the table below is £5,722,278 (budget £4,263,000). This represents a cash decrease of £1,021,998 or 15.2% 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	2,214,110	2,264,850
Tariff Adjustment ('negative RSG')				
Revenue Support Grant	655,042			
Transition Grant	134,829	117,201		
<b>Settlement Funding Assessment</b>	<b>2,896,396</b>	<b>2,266,733</b>	<b>2,214,110</b>	<b>2,264,850</b>
Change over SR Period (£)				(631,546)
Change over SR Period (%)				-21.8%
<b>New Homes Bonus</b>	<b>3,847,880</b>	<b>3,490,134</b>	<b>3,334,128</b>	<b>3,457,428</b>
Change over SR Period (£)				(390,452)
Change over SR Period (%)				-10.1%

<b>Overall Grant Funding</b>	<b>6,744,276</b>	<b>5,756,867</b>	<b>5,548,238</b>	<b>5,722,278</b>
Change over SR Period (£)				(1,021,998)
Change over SR Period (%)				-15.2%

1.3.8 The government in recent years has referred to the increase / (decrease) in an authority's core spending power. Using 2015/16 as the base year the increase in core spending power over the spending review period calculated by the government in cash terms is £872,149 or 5.6%.

1.3.9 The provisional local government finance settlement 2019/20 is subject to consultation. The return date for responses to the consultation is 10 January 2019. A copy of the response drafted so far is attached at **[Annex 1]**. The response is still being updated and any changes will be made in liaison with the Cabinet Member for Finance, Innovation and Property. The consultation paper can be found at the following link:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/764449/Provisional\\_local\\_government\\_finance\\_settlement\\_consultation\\_2019-20.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764449/Provisional_local_government_finance_settlement_consultation_2019-20.pdf)

1.3.10 Alongside the provisional settlement, the Secretary of State also published two further papers:

- “Review of local authorities’ relative needs and resources” seeking views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England in 2020-21.
- “Business rates retention reform: consultation” seeking views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system.

1.3.11 The return date for responses to both papers is 21 February 2019. 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 Cabinet Member for Finance, Innovation and Property to respond as appropriate.

## 1.4 Business Rates Retention Pilots

1.4.1 Members will recall the Kent and Medway bid for pilot status in respect of 100% business rates retention for the year 2018/19 was successful and based on the estimates prepared during the bidding process the financial benefit for Kent as a whole could be circa £25m with the sum being divided into two discrete ‘pots’. One for financial sustainability paid at individual council level, and the second for housing and commercial growth paid on a cluster basis.

- 1.4.2 Again, based on the estimates prepared during the bidding process, in terms of financial sustainability, a sum of circa £500,000 would come to Tonbridge and Malling in 2018/19 and an allocation of circa £1m to the West Kent Cluster (Sevenoaks, Tunbridge Wells and Tonbridge and Malling areas) towards supporting housing and commercial growth. As reported elsewhere, performance to date would suggest the sums set out above could be exceeded, potentially to around £800,000 in respect of financial sustainability and £1.5m in respect of the West Kent Cluster.
- 1.4.3 An application to pilot 75% business rates retention in 2019/20 was submitted in September 2018 following an invitation from the Secretary of State. 75% business rates retention pilots in 2019/20 have been approved in 15 areas, but regrettably on this occasion the Kent and Medway bid was unsuccessful.

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

- 1.5.1 Beyond 2019/20, the 2019 Spending Review will determine the overall funding envelope for local government over the Spending Review period, the Fair Funding Review detailing how that funding is shaken down to individual councils and, in turn, business rates baselines and baseline funding levels. How we will fair at the end of that process is extremely difficult to predict at this stage. As Members can appreciate this period of 'limbo' does little to aid medium term financial planning and it will be some time before the outcome of the above process is known. As a result the year 2019/20 could be seen as a **holding year**.

## **1.6 Local Referendums to Veto Excessive Council Tax Increases**

- 1.6.1 The Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.
- 1.6.2 For the year 2019/20, a referendum will be triggered where council tax is increased by **3%, or more than 3% and more than £5**.
- 1.6.3 Referendum principles currently do not apply to town and parish councils.

## **1.7 Partnership Funding Pressures**

### *Disabled Facilities Grants*

- 1.7.1 Members may recall central government grant funding made available for disabled facilities grants (DFGs) by way of the Better Care Fund (BCF) was increased a few years ago. The additional funding was used to establish the West Kent Hospital and Handyperson Scheme and secondment of an occupational therapist on the understanding this initiative would need to be scaled back or cease

dependent on the funding required to meet mandatory DFGs expenditure. Members will be aware that this scheme has been very well received.

- 1.7.2 Ironically, due to the success of the scheme all of the funding by way of the BCF is required to meet the pressure on the mandatory DFGs budget such that no funding is available for the West Kent Hospital and Handyperson Scheme and secondment of occupational therapist beyond March 2019. Accordingly, based on the understanding made at the time of its introduction, the scheme should cease as of that date unless alternative funding can be identified and secured.
- 1.7.3 However, to give the matter proper consideration it is proposed that the Scheme be the subject of review by the Overview and Scrutiny Committee over the coming months. The costs of the Scheme in 2019/20 only can be funded from an earmarked reserve to provide a breathing space for the review to take place. Clearly, if alternative funding cannot be identified and secured and the Scheme were to continue beyond 2019/20, this would represent budget growth and, in turn, add to the funding gap.

#### *Public Health*

- 1.7.4 Similarly, the Council in recent years has and continues to deliver public health initiatives, in the main, for Kent County Council, under a 'commissioning role'. When introduced it was on the understanding that the arrangement would be fiscal neutral (i.e. we would 'cut our cloth' according to the funding provided). The funding provided has reduced over time whilst costs have increased where the Council is now meeting a shortfall in funding from an earmarked reserve established for this purpose.
- 1.7.5 The reserve can 'plug' the shortfall in funding in the short term, but after that the presumption is that we should 'cut our cloth' accordingly as was originally planned. To give the matter proper consideration it is proposed this service area also be the subject of review by the Overview and Scrutiny Committee over the coming months. Again, if the shortfall were to continue this would represent budget growth and, in turn, add to the funding gap.

#### *Community Safety Partnership*

- 1.7.6 In recent years contributions made to the Community Safety Partnership (CSP) by various partners have ceased whereby only two bodies (Tonbridge and Malling Borough Council and Police and Crime Commissioner for Kent) now fund the work of the CSP. The earmarked reserve used to fund the resulting increase in costs to this Council has now been consumed and as such future years' costs represent budget growth.
- 1.7.7 It is proposed that this service area too be the subject of review by the Overview and Scrutiny Committee over the coming months to consider costs and how we might attract / secure third party funding. Alongside it however, the Management

Team suggest that consideration of CCTV arrangements also be “rolled in” to this review.

- 1.7.8 In terms of CCTV, Members will be aware that we are in a partnership with Tunbridge Wells Borough Council (TWBC) to provide ‘live’ CCTV monitoring across the two boroughs. Whilst the benefits are clearly shared by other public sector partners in terms of community safety and crime reduction, it is the borough councils who pay in full for these costs. Members will note the costs on page SSLTS 37 of the revenue estimates booklet appended to this report.
- 1.7.9 In early 2017, in view of the costs involved TWBC began a review to test whether it would be appropriate to move from ‘live’ to ‘passive’ monitoring. This was not supported at the time by TWBC Members; but had it been, Members of this Council as a partner authority would have been asked to consider ‘passive’ monitoring also.
- 1.7.10 Management Team has now suggested that if a scrutiny review of CSP funding is to take place, bearing in mind the obvious link with CCTV, this should be rolled into the review also.

## 1.8 Specific Issues

- 1.8.1 Members are advised that certain government initiatives, e.g. Welfare Reform, will undoubtedly impact on the Council’s finances over the medium term and an assessment of the potential impact is not straightforward. Nonetheless, I and Management Team will continue to monitor the potential impact as more information is made available.
- 1.8.2 In terms of the council tax base, built into the MTFS is an expectation about future growth in the number of band D equivalents over the ten-year period. Members will be aware that this growth (or otherwise) will impact on the level of New Homes Bonus (NHB) that the Council **might** receive in the future. It is important, however, to recognise that the scale of development growth both in any one year and over the medium term is very difficult to predict given the market as well as other site specific conditions.
- 1.8.3 Recommendations regarding fees and charges are to be considered during this cycle of meetings. Any changes required following consideration of fees and charges presented to this and other meetings will be incorporated before the Estimates are reported to Cabinet on 14 February.
- 1.8.4 The draft Estimates, other than loss of investment income and the estimated loss of income claim associated with the proposed major programme of works at Larkfield Leisure Centre, do not take account of the revenue consequences of the addition of new capital schemes to the Capital Plan. At its meeting on 14 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the MTFS and, where appropriate, recommend additions to the Capital Plan.



- 1.8.5 An additional contribution of £450,000 is to be made to the Revenue Reserve for Capital Schemes in 2018/19 following the latest cost estimate in respect of the Larkfield Leisure Centre ventilation system and boiler replacement capital plan scheme. In addition, the annual contribution to the Reserve is to be increased to £557,000 in 2019/20 returning to £232,000 for the remainder of the capital plan review period 2020/21 to 2024/25.
- 1.8.6 The contribution to the Building Repairs Reserve in 2018/19 is to be increased from £600,000 to £1,000,000 following identification of unfunded works required including the Larkfield Leisure Centre internal roof frame and Tonbridge Farm Sportsground Pavilion roof. In addition, the annual contribution to the Reserve is to be increased from £600,000 to £650,000 from 2019/20 to meet ongoing maintenance and repair obligations.
- 1.8.7 Turning to the individual Estimates, particular issues to be drawn to Members attention are set out below:

### **Corporate Services**

- 1.8.8 Particular issues to be drawn to Members' attention:

- 1) Salary estimates reflect savings accruing during the first part of the year and part year effect of establishment changes. Forward estimate reflects the full year effect of establishment changes and a provision for pay inflation.
- 2) Legal Expenses budget for 2019/20 includes potential costs associated with planning applications in respect of 'strategic sites' prior to the adoption of the new Local Plan to be funded from an earmarked reserve.
- 3) Information Technology Services estimates reflect additional maintenance costs and increased software support costs of the IT infrastructure.
- 4) Payments to Members reflect the recommendations of the Joint Independent Remuneration Panel approved by Council in April 2017.

### **Chief Executive**

- 1.8.9 Particular issues to be drawn to Members' attention:

- 1) Conduct of Elections includes cost estimates for the May 2019 Borough Election funded from an earmarked reserve.
- 2) Economic Development and Regeneration budget includes funding from the 2018/19 Kent and Medway 100% Business Rates Retention Pilot to support economic initiatives.

### **Director of Central Services**

1.8.10 Particular issues to be drawn to Members' attention:

- 1) Tonbridge Castle Gatehouse includes provision to renew the lighting in the Great Hall in 2019/20.
- 2) Local land charges income reflects current and anticipated market demand.
- 3) Land review budget reflects the revised timetable in respect of the sale of the River Walk Offices.
- 4) Licensing income reflects current and anticipated demand.

### **Director of Finance and Transformation**

1.8.11 Particular issues to be drawn to Members' attention:

- 1) Housing Benefits estimates reflect the linking of temporary accommodation costs recharged to clients to the Local Housing Allowance; and anticipated reduction in housing benefits expenditure as welfare reform measures accumulate.
- 2) Estimates also reflect a further reduction in the administration grant from the DWP and MHCLG in respect of housing benefits and council tax support.
- 3) Investment income includes further investment in one or more property funds.

### **Director of Planning, Housing and Environmental Health**

1.8.12 Particular issues to be drawn to Members' attention:

- 1) Planning applications fee income for 2018/19 in respect of 'strategic sites' prior to the adoption of the new Local Plan to be transferred to an earmarked reserve to meet potential associated costs.
- 2) Planning Policy budget reflects costs associated with the preparation of the Local Plan to be funded from an earmarked reserve.
- 3) Housing Strategy budget reflects the appointment of consultants to undertake housing needs research in 2018/19 to be funded from an earmarked reserve.
- 4) Homelessness budget reflects both the additional staff and non-staff costs as a result of the Homelessness Reduction Act funded at least in the short term by government grant; linking of temporary accommodation costs recharged to clients to the Local Housing Allowance; and the purchase of temporary accommodation for homelessness purposes.

- 5) Increased spend and ongoing budgetary pressure in respect of Disabled Facilities Grants is such there is no funding available for the West Kent Hospital and Handyperson Scheme and secondment of occupational therapist beyond March 2019. The costs of the Scheme in 2019/20 only to be funded from an earmarked reserve (see paragraph 1.7.3).
- 6) Private Sector Housing Standards budget reflects the appointment of consultants to undertake a stock condition modelling exercise in 2019/20 to be funded from an earmarked reserve.
- 7) Environmental Protection budget reflects the appointment of consultants to update the Air Quality Action Plan.

### **Director of Street Scene, Leisure and Technical Services**

#### 1.8.13 Particular issues to be drawn to Members' attention:

- 1) Estimates reflect the outcome of the recent retendering of the waste services contract including a chargeable opt-in garden waste service and an inter-authority agreement with Kent County Council; and a one-off communication / marketing budget.
- 2) Larkfield Leisure Centre budget includes an estimate of the associated loss of income claim as a result of the proposed major programme of works funded in large part from the removal of 'negative RSG' in 2019/20.
- 3) Estimates reflect the outcome to date of the review of the grounds maintenance specification / maps; increased costs of tree works; and inspection / maintenance of bridges owned by the Council.
- 4) Youth Engagement, Sports Development and Events Management budgets reflect the outcome of the recent review of these service areas by the Overview and Scrutiny Committee.
- 5) Parking income reflects the intended use of the River Lawn car park as a compound during the construction of the proposed new Medical Centre in Tonbridge.
- 6) Estimates reflect the rescheduling of the Wouldham river wall capital plan scheme following external consultant's report on potential timing of works.

## **1.9 Revised Revenue Estimates 2018/19**

1.9.1 Overall, the draft 2018/19 Revised Estimates show an increase over the Original Estimates of £321,850 prior to making a contribution to/from the General Revenue Reserve.

1.9.2 The principal variations are given in the table below:-

<b>Description</b>	<b>DR £</b>	<b>CR £</b>	
Building Repairs Reserve	400,000		
New Waste Services Contract	179,650		
Trees	60,000		
Information Technology	45,350		
Land Charges Income	45,000		
Business Rates Retention Scheme	34,950		
Housing Benefits excluding Rent Rebates	32,250		
Advertising & Other Recruitment Costs	26,350		
1 - 4 River Walk	24,500		
Homelessness Bad Debt Provision	22,000		
Drainage Board Levies		29,200	
Investment Income		75,000	
Contributions from KCC		89,050	
Salaries & Contributions		347,450	
Other Net Changes		7,500	<b>DR</b>
<b>Total</b>	<b>870,050</b>	<b>548,200</b>	<b>321,850</b>

## 1.10 Revenue Estimates 2019/20

1.10.1 Overall, the draft 2019/20 Estimates show an increase over the 2018/19 Original Estimates of £450,368 prior to making a contribution to/from the General Revenue Reserve.

1.10.2 The principal variations are given in the table below:-

<b>Description</b>	<b>DR £</b>	<b>CR £</b>
TMLT Anticipated Loss of Income Claim	1,000,000	
Business Rates Retention Scheme Reserve	600,000	
Property Investment Fund Reserve	500,000	
Salaries & Contributions	280,800	
Information Technology	89,350	
Housing Benefits excluding Rent Rebates	52,250	
Building Repairs Reserve	50,000	
Benefits Administration Grant	20,350	
Land Charges Income	20,000	
Under-indexing Business Rates Multiplier		27,650
Car Park Income including Refunds		28,000
Temporary Accommodation		50,000
Business Rates Retention Scheme		50,740
Investment Income		106,000
New Homes Bonus		123,300
TMLT Reserve		200,000

Revenue Reserve for Capital Schemes		245,000	
Collection Fund Adjustments		658,792	
New Waste Services Contract		665,450	
Other Net Changes		7,450	<b>DR</b>
<b>Total</b>	<b>2,612,750</b>	<b>2,162,382</b>	<b>450,368</b>

1.10.3 It is likely that there will need to be changes made to the Estimates as we move through the budget setting process. It is my intention to bring these together for the Cabinet Budget meeting in February, rather than introduce them in a piecemeal fashion.

## 1.11 Draft Capital Plan

1.11.1 A report elsewhere on this agenda seeks to advise Members of the way forward on the Capital Plan. The criteria established to guide the inclusion of new schemes to List C (holding list of schemes not yet fully worked up) and ultimately the inclusion of schemes on List A (schemes assigned budget provision) are:

- to meet legislative requirements including health and safety obligations;
- funded from external resources; and
- reduce revenue expenditure and or generate income.

1.11.2 The Capital Plan review report recommends schemes for inclusion on List B, the short-list of schemes for possible inclusion in the Capital Plan. Members are reminded that the selection from List B, of schemes to be included in the Capital Plan (List A) – if any – will be made at Cabinet on the 14 February for endorsement by Council. With this in mind Members are advised that, other than loss of investment income and the estimated loss of income claim associated with the proposed major programme of works at Larkfield Leisure Centre, the revenue consequences of new capital schemes **have yet to be incorporated within the Estimates**.

1.11.3 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of existing assets (vehicles, plant and equipment) as well as recurring capital expenditure.

1.11.4 As a result there is an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance. The annual capital allowance is currently set at £200,000. In 2019/20 and for one year only the annual allowance is £525,000 returning to £200,000 over the remainder of the capital plan review period 2020/21 to 2024/25. It should be noted, based on current projections, that from 2025/26 the Council may need to borrow to fund such expenditure.

1.11.5 In addition, the Invest to Save Reserve or Transformation Reserve (made up of specific grants received from government in respect of revenues and benefits functions) could be used to fund in full or in part appropriate capital plan schemes.

## 1.12 Consultation with Non-Domestic (Business) Ratepayers

1.12.1 Before the Borough Council determines the amount of its total estimated expenditure and makes calculations of its requirements for the ensuing financial year, it consults representatives of its non-domestic ratepayers about its expenditure proposals (including capital expenditure). The consultees, who include the local Chambers of Commerce as well as a group of the larger ratepayers in the Borough, receive on request information and copies of the draft budgets and are invited to make written representations if they deem it appropriate. Any points of clarification required are dealt with by telephone, written correspondence or, if appropriate, an informal meeting with officers.

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

## 1.13 Medium Term Financial Strategy Update

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

*Provisional Local Government Finance Settlement plus New Homes Bonus*

1.13.2 The provisional Local Government Finance Settlement for 2019/20 is not that dissimilar to that set out in the multi-year settlement **except** for the removal of 'negative RSG' which the government is to meet from their share of business rates income. In our case 'negative RSG' in 2019/20 was circa £998,000 which we would otherwise had to pay over and as such is clearly welcome, **albeit it should be remembered this is a "one-off" adjustment**. Funding beyond 2019/20 **dependent** on the outcome of the 2019 Spending Review and the Fair Funding Review.

1.13.3 The baseline below which New Homes Bonus (NHB) will not be paid is to be held at 0.4% for the year 2019/20 giving NHB of circa £3,457,000 (budget £2,998,000). Beyond 2019/20, NHB will continue to fall as changes made to the scheme work their way through the system and the recent above average housing delivery falls out of the calculation. It is estimated that by 2023/24 NHB could be around £1.8m assuming no further changes are made to the scheme. This is a dramatic change to the sums we have so far enjoyed and where NHB remains at **risk indefinitely**. It is our ambition to restructure the MTFs so it is not as reliant on NHB or its replacement particularly when read in conjunction with the paragraph below.

1.13.4 As mentioned at paragraph 1.3.6, recent comments reported in local government press that the Treasury do not see NHB as having worked could well see its demise from 2020/21; although in contrast the Secretary of State has sought to

'protect' NHB in 2019/20. For medium term financial planning purposes we have assumed there will continue to be some form of performance funding if NHB was withdrawn, but on a much reduced scale than that received in recent years via NHB.

#### *Business Rates Retention Scheme*

- 1.13.5 The ongoing impact of the Business Rates Retention Scheme and the proposal to move to an 'interim' 75% Retention Scheme in 2020/21 and an 'eventual' 100% Retention Scheme.
- 1.13.6 Members will recall the Kent and Medway bid for pilot status in respect of 100% business rates retention for the year 2018/19 was successful. Based on the estimates prepared during the bidding process, in terms of financial sustainability, a sum of circa £500,000 would come to Tonbridge and Malling in 2018/19 and an allocation of circa £1m to the West Kent Cluster (Sevenoaks, Tunbridge Wells and Tonbridge and Malling areas) towards supporting housing and commercial growth. Performance to date would suggest the sums set out above should be received, if not exceeded.
- 1.13.7 Beyond 2019/20, however, the **question remains** as to what will our business rates baseline and baseline funding level be under an 'interim' 75% and '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?

#### *Council Tax Referendum Principles*

- 1.13.8 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.
- 1.13.9 For the year 2019/20, a referendum will be triggered where council tax is increased by **3%, or more than 3% and more than £5**. This time last year the MTFS assumed a council tax increase of £5 representing a 2.5% increase in council tax.
- 1.13.10 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.

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

- 1.13.11 Beyond 2019/20, the 2019 Spending Review will determine the overall funding envelope for local government over the Spending Review period, the Fair Funding Review detailing how that funding is shaken down to individual councils and, in turn, business rates baselines and baseline funding levels. How we will fair at the end of that process is extremely difficult to predict at this stage. As Members can appreciate this period of 'limbo' does little to aid medium term financial planning

and it will be some time before the outcome of the above process is known. As a result the year 2019/20 could be seen as a **holding year**.

1.13.12 Notwithstanding that, we still need to plan ahead as best we can.

1.13.13 For medium term financial planning purposes, from 2020/21, it is assumed that **overall grant funding** whether that be baseline funding level, some element of growth performance, NHB or its replacement **will add up to around £2.4m**. For comparative purposes in 2010/11 overall grant funding was on or around £6.6m.

1.13.14 This is different to the £2.6m reported to Cabinet in October – Why? Despite statements regarding an end in sight for austerity, the Chancellor’s Budget in late October did nothing to suggest an ‘easing’ in the financial pressures to be faced over the medium term by district councils.

1.13.15 Clearly, if our overall grant funding is less than we had hoped (meeting the commitment made to address ‘negative RSG’, NHB is withdrawn and not replaced) the funding gap will be higher than that assumed. On the other hand, if our overall grant funding is more than we had hoped the funding gap will be lower than that assumed. To put this into context an outcome could be a funding gap of say £2.0m or no funding gap further underlining the risk of significant variances compared to projections.

1.13.16 If overall grant funding is in excess of £2.4m which at least in the early years we hope it could be, sums over and above this amount could be used to establish a ‘**stabilisation reserve**’ going forward to assist in meeting future saving and transformation contributions and or help manage risk. This will need to be revisited following the outcome of the 2019 Spending Review and Fair Funding Review.

#### *Waste Services Contract*

1.13.17 The outcome of the recent retendering of the waste services contract has caused us to consider the approach to take during and beyond the initial 8 year contract period.

1.13.18 For medium term financial planning purposes it is assumed the inflationary increase in the contract sum over and above CPI is negated by a gradual increase in both the charge and the take-up of the garden waste service; and any potential above inflationary uplift in year 9 is no more than 10%. It should also be noted that the inter-authority agreement with Kent County Council is subject to review beyond the initial 8 year contract period and it is assumed that this will continue in its current form beyond that date.

1.13.19 The MTFs will continue to be updated as we move through the 2019/20 budget cycle and as more information becomes available and in due course presented with the Budget report to Cabinet in February.



## 1.14 Savings and Transformation Strategy

1.14.1 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 financial challenge faced by the Council. In so doing, it recognises that there is no one simple solution and as a result we will need to adopt a number of ways to deliver the required savings and transformation contributions within an agreed timescale.

1.14.2 A number of key themes have been identified, together with outline targets and timescales which will need to be revisited and aligned with the latest projected funding gap as part of the budget setting process. An updated version of the STS will be presented with the Budget report to Cabinet.

### *Savings and Transformation Contributions*

1.14.3 To recap, this year's savings and transformation contribution was set at £350,000 and to date **net savings in the order of £450,000 have been achieved** when looking across the ten-year period of the MTFS as summarised in the table below.

1.14.4 Factors that have contributed towards meeting this year's contribution most notably includes the new waste services contract (including introducing a charge for garden waste) and assumed uplift in the increase in the tax base year on year. Factors that have taken the funding gap in the 'wrong' direction include extending an increase in council tax of £5 each year to the end of the MTFS period, government grant support and widening shortfall between housing benefit payments and subsidy in the case of supported accommodation.

	£'000
Savings and Transformation Contributions Identified to Date	650
Other Factors Impacting on MTFS	(200)
<b>Net Savings and Transformation Contribution</b>	<b>450</b>

1.14.5 This time last year the projected funding gap was circa £1m and a year on, all other things being equal, was expected to be £650,000. **The latest projected 'outstanding' funding gap is £550,000** (£1,000,000 - £450,000). The number, scale and timing of requisite future savings and transformation contributions is the subject of consideration.

1.14.6 But as mentioned at paragraph 1.13.15, the funding gap could be say £2.0m or no funding gap dependent on the outcome of the 2019 Spending Review and the Fair Funding Review further underlining the risk of significant variances compared to projections.

## **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 The 2019/20 provisional settlement is relatively positive for TMBC, which is welcome news. However, as I have said, this is a standalone “holding year” and two key questions remain. Firstly, what will our business rates baseline and baseline funding level be under an ‘interim’ 75% and ‘eventual’ 100% Business Rates Retention scheme, and how will this compare to that reflected in the MTFS taking into account transfer of any new responsibilities? Secondly, what is 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 Beyond 2019/20, the 2019 Spending Review will determine the overall funding envelope for local government, the Fair Funding Review detailing how that funding is shaken down to individual councils and, in turn, business rates baselines and baseline funding levels. How we will fair at the end of that process is extremely difficult to predict at this stage. It is worth repeating that this does little to aid medium term financial planning and it will be some time before the outcome of the above process is known.
- 1.16.3 Furthermore, 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 is 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 and transformation contributions will put at risk the integrity of the MTFS.
- 1.17.3 The continuing uncertainty and volatility surrounding local government finances and more recently Brexit make financial planning that more difficult with the increased risk of significant variances compared to projections; and the consequent implications on the level of reserves held.
- 1.17.4 The projected figures for New Homes Bonus or its replacement are at risk of further revision downwards which would, in turn, increase the required savings and transformation contributions.
- 1.17.5 The Inter Authority Agreement with KCC as part of the Waste Services Contract may not be extended beyond the initial 8 year contract period, albeit this is considered unlikely. The Waste Services Contract also may not be extended beyond the initial 8 year contract period which could then have an adverse financial impact in years 9 and 10 of the Medium Term Financial Strategy dependent on the resulting financial consequences.
- 1.17.6 Members are reminded that there are factors not reflected in the MTFS, e.g. the cost of borrowing for new capital plan schemes when and if required.
- 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.

## **1.18 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 and transformation options emerge, further equality impact assessments will need to be carried out as appropriate.

## **1.19 Recommendations**

- 1.19.1 The Advisory Board is asked to:

- 1) Note and endorse the proposed increase in the minimum General Revenue Reserve balance from £2.0m to £3.0m.
- 2) Note the draft response to the provisional local government finance settlement 2019/20 as set out in **[Annex 1]**, and to be updated as appropriate in liaison with the Cabinet Member for Finance, Innovation and Property;

- 3) Agree that delegated authority be given to the Director of Finance and Transformation in liaison with the Cabinet Member for Finance, Innovation and Property to respond to the two further papers published alongside the provisional settlement as detailed at paragraph 1.3.10.
- 4) Recommend to Cabinet that the Overview and Scrutiny Committee be asked to review the service areas, Disabled Facilities Grants, Public Health and Community Safety Partnership as detailed at paragraph 1.7.
- 5) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 14 February.
- 6) Recommend to Cabinet that the Savings and Transformation Strategy is updated to reflect the latest projected 'outstanding' funding gap as part of the budget setting process.

Background papers:

Nil

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