

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

25 June 2019

Report of the Management Team

Part 1- Public

Executive Non Key Decisions

1 UPDATE ON THE MEDIUM TERM FINANCIAL STRATEGY AND SAVINGS AND TRANSFORMATION STRATEGY

The report provides an update on both the **Medium Term Financial Strategy and Savings and Transformation Strategy**, with an assessment of the latest projected funding gap. The report recommends that Cabinet identifies and considers opportunities for delivering savings and transformation contributions over the medium term.

1.1 Medium Term Financial Strategy – Introduction

1.1.1 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 £3.0m** 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 The Council has and continues to face a significant financial challenge as a result of the Government's budget deficit reduction programme which has resulted in reductions in the financial support offered to local government. We do, however, believe 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.

- 1.2.2 When setting the budget for 2019/20 in February 2019, projections at that time suggested a funding gap between expenditure and income of circa £550,000. This 'gap' was translated into three savings and transformation contributions of £100,000, £400,000 and £50,000 to be achieved by the start of the year 2020/21, 2024/25 and 2028/29 respectively.

- 1.2.3 The MTFS will be updated and rolled forward as part of the forthcoming 2020/21 budget setting process.

1.3 Local Government Finance Settlement 2020/21 and Council Tax Referendum Principles

- 1.3.1 The expectation this time last year was that the 2019 Spending Review would determine the overall funding envelope for local government over a three or four-year period. Running in parallel, the awaited Fair Funding Review was expected to detail how that funding is to be shaken down to individual councils and, in turn, business rates baselines and baseline funding levels.

- 1.3.2 Given the diversion of parliamentary business time into other matters, it is now considered very unlikely that we will see the Fair Funding Review in time to inform the 2020/21 Settlement. Therefore, our expectation is that there will be a "rollover year" with a Settlement Funding Assessment (SFA) for one year only (2020/21) which effectively further prolongs the period of 'limbo' which, as highlighted previously, does little to aid medium term financial planning. We are assuming, at this early stage, that the SFA for 2020/21 will not be that dissimilar to the SFA for 2019/20.

- 1.3.3 However, we should stress that funding beyond 2020/21 will be **dependent** on the outcome of the expected multi-year settlement to follow and the Fair Funding

Review. As a result 2019/20 and now possibly 2020/21 too could be seen as a holding year.

- 1.3.4 For the year 2020/21, the threshold above which a referendum would be triggered for council tax increase purposes is yet to be confirmed. For the purposes of the MTFS an increase of £5 in Band D council tax in 2020/21 and each year thereafter has been assumed.

1.4 New Homes Bonus

- 1.4.1 Cabinet is reminded that New Homes Bonus (NHB) is not part of 'core' funding. Changes have already been made to the scheme and we do expect that further changes will be introduced (or the scheme withdrawn completely at some point).
- 1.4.2 For the purposes of financial planning, at this early stage we are assuming that NHB will continue in its *current* form in 2020/21 where the baseline below which NHB will not be paid remains at 0.4%. In practice, this means that about 235 homes need to be delivered before any NHB is paid on an incremental basis.
- 1.4.3 Irrespective of whether any further changes are made to the scheme, NHB will continue to fall as the changes already made to the scheme work their way through the system and the recent above average housing delivery falls out of the calculation. In its current form, by 2023/24, NHB could be around £1.8m.
- 1.4.4 This is a dramatic change to the sums (in excess of £3m) we have so far received and where NHB remains at **risk indefinitely**. To put this into context NHB could continue in its current form, be withdrawn and not replaced placing the Council's finances under severe pressure or replaced, but where the funding stream and sum awarded is much reduced. It remains our ambition to restructure the MTFS so it is not as reliant on NHB or its replacement.

1.5 Updating the Medium Term Financial Strategy

- 1.5.1 Notwithstanding the continuing uncertainty and volatility surrounding local government finances with the increased risk of significant variances compared to projections, we still need to plan ahead as best we can.
- 1.5.2 For medium term financial planning purposes in setting the budget for 2019/20 in February 2019 we assumed overall government grant funding (business rates baseline, business rates growth, NHB or its replacement) in 2020/21 will be in the order of £2.4m uplifted for inflation year on year. Overall government grant funding, at least in the early years, was expected to be in 'excess' of £2.4m and it was suggested that sums over and above this amount be used to establish a 'stabilisation reserve' to assist in meeting future savings and transformation contributions and or help to manage risk.
- 1.5.3 A year on, the assumed 'excess' referred to above is negating recent above inflationary increase in energy prices, establishment changes reported to General

Purposes Committee earlier this month and the inflationary increase in the waste services contract sum over and above CPI which in the long term, all other things being equal, represents **budget growth**. Other potential budget pressures in the 'pipeline' include the pension fund triennial valuation later this year.

- 1.5.4 As we all know, the funding gap is not static and constantly changes in response to both internal and external factors. So where do we now assess the projected funding gap? Early indications at a high level suggest £600,000 compared to £550,000 when setting the budget for 2019/20 in February 2019.

1.6 Savings and Transformation Strategy

- 1.6.1 As Cabinet are aware, alongside the MTFS sits the 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.
- 1.6.2 A number of key themes have been identified, together with outline targets and timescales which will be revisited and aligned with the latest projected funding gap as part of the forthcoming budget setting process.
- 1.6.3 It is worth reflecting, if but for a moment, on the cumulative savings of circa £2.5m that have been achieved since the inception of the STS in 2016. Members should also note that cumulative savings in excess of £4m have been achieved over the past 6 – 7 years.
- 1.6.4 **[Annex 1]** sets out the individual savings achieved in each year, by theme and summarised below.

Theme	Savings and Transformation Contributions				
	By April 2016	By April 2017	By April 2018	By April 2019	Total
	£000	£000	£000	£000	£000
Income Generation & Cost Recovery	60	146	88	0	294
In-Service Efficiencies	200	77	50	0	327
Service Change & Reduction	0	100	3	65	168
Contracts	0	0	200	585	785
Organisation Structure Change	15	129	119	0	263
Partnership Funding	0	431	0	0	431
Asset Management	0	0	186	0	186
Total	275	883	646	650	2,454

- 1.6.5 The early high level indicative funding gap highlights the need to **focus attention** so as to ensure we deliver this year's savings and transformation contribution of £100,000. Cabinet may also want to consider how it wants to deal with the 'growth' in the funding gap of circa £50,000 that we have flagged up at paragraph 1.5.4, notwithstanding that this will undoubtedly change again as we move through the year.
- 1.6.6 During the consideration of the budget at Cabinet on 14 February 2019, attention was drawn to potential growth pressures in three areas (Disabled Facilities Grants, Public Health and Community Safety Partnership) which could have significant implications for the 'funding gap' if not addressed. It was recommended at the time (Minute CB19/5) that the Overview and Scrutiny (O&S) Committee be asked to undertake reviews of these budget areas and these have accordingly been incorporated into the work programme of that Committee.
- 1.6.7 Members may wish to note that the O&S Committee is due to consider the three topics as follows:
- 29 August – Review of Community Safety including CCTV provision and the role of the Community Safety Unit
 - 10 October – Review of Disabled Facilities Grants
 - 10 October – Review of the Council's Public Health function.
- It goes without saying that if Members decide that these functions should continue in full or in part, this will add to the funding gap and a greater level of saving will need to be made in other areas.
- 1.6.8 In addition to the above, Cabinet agreed the recommendations of the O&S Committee regarding the ongoing provision of Public Conveniences and this matter is presently being progressed. Cabinet may recall that the cleaning contract for public conveniences has been extended until the end of February 2020 in order to give time to progress discussions with parish councils as recommended by O&S Committee. The outcome of this area of work could provide a contribution towards the 2020/21 savings and transformation tranche and is, therefore, a critical project for this year.
- 1.6.9 It is important that other potential options are considered and reviewed in order to provide some 'alternative' strands either for 2020/21, or later savings and transformation 'tranches'.
- 1.6.10 Progress on meeting this year's savings and transformation contribution will be reported via the Finance, Innovation and Property Advisory Board.

1.7 Legal Implications

- 1.7.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.7.2 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.

1.8 Financial and Value for Money Considerations

- 1.8.1 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.
- 1.8.2 The preparation of the 2019 /20 revised and 2020/21 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.
- 1.8.3 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.

1.9 Risk Assessment

- 1.9.1 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.
- 1.9.2 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.
- 1.9.3 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.10 Equality Impact Assessment

- 1.10.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.11 Policy Considerations

1.11.1 Business Continuity/Resilience

1.11.2 Community

1.12 Recommendations

1.12.1 Cabinet is **RECOMMENDED** to:

- Note the present position with regards to the MTFFS and STS; and
- Identify and consider opportunities for delivering savings and transformation contributions over the medium term.

Background papers:

Nil

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