

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

16 October 2019

Report of the Chief Executive and Director of Finance and Transformation

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY UPDATE

The report provides an update on the Medium Term Financial Strategy and projected funding gap ahead of the forthcoming budget cycle.

1.1 Introduction

1.1.1 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 £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 It is to be proposed in the forthcoming budget cycle that, subject to review each year, the maximum 'annual capital allowance' be increased from £200,000 to £250,000 to reflect cost inflation.
- 1.1.3 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 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 budget deficit reduction programme which has resulted in 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 When setting the budget for 2019/20 in February 2019, projections at that time suggested that there was 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.

1.3 Local Government Finance Settlement 2020/21

Settlement Funding Assessment (Core Funding)

- 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; and the Fair Funding Review how that funding was shaken down to individual councils and, in turn, business rates baselines and baseline funding levels.
- 1.3.2 Given the diversion of parliamentary business on other matters, the Settlement Funding Assessment (SFA) is to be for one year only (2020/21) and the Fair Funding Review is also deferred. As a result, the period of 'limbo' is prolonged; which again does little to aid medium term financial planning.
- 1.3.3 It is assumed that the SFA for 2020/21 will not be that dissimilar to 2019/20 uplifted for inflation with the Government funding, for a further year, what has been referred to as 'Negative RSG'. To put this into context in our case 'Negative RSG' is around £1m and, in turn, giving a SFA of either £1.3m or £2.3m.
- 1.3.4 However, it is important to 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 2020/21 could be seen as a **holding year**.

New Homes Bonus

- 1.3.5 In terms of New Homes Bonus (NHB), it is understood that legacy payments will be honoured; but the Scheme for 2020/21 onwards remains the subject of discussion.
- 1.3.6 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 circa £1.8m. This is a dramatic change to the sums (in excess of £3m) we have so far received and where NHB remains at risk indefinitely. It remains our ambition to restructure the MTFs so it is not as reliant on NHB or its replacement.
- 1.3.7 To put this into context NHB could:
- Continue in its current form – NHB £1.8m
 - Be withdrawn and not replaced – NHB £nil placing the Council's finances under severe pressure.
 - Be replaced, but where the funding stream and sum awarded is much reduced – for example NHB replacement £900,000 or half that of NHB.
- 1.3.8 For the purposes of the paper it is assumed legacy payments only will be received, the last of which in 2022/23 and thereafter replaced, but where the funding stream and sum awarded is much reduced.

Overall Government Grant Funding (Settlement Funding Assessment + NHB)

- 1.3.9 In summary, it is assumed the SFA for 2020/21 and NHB grant award will be circa £2.3m and £2.7m (legacy payments only) respectively giving overall grant funding of £5.0m. This represents a cash decrease of £800,000 or 13.8% when compared to the equivalent figure of £5.8m in 2019/20.

1.4 Post 2020/21

- 1.4.1 Notwithstanding the continuing uncertainty and volatility surrounding local government finances with the increased risk of significant variations compared to projections, we still need to plan ahead as best we can. To put this into context at one end of the spectrum overall government grant funding could be £1.5m and at the other £3.3m.
- 1.4.2 In the latest iteration of the MTFs it is assumed overall government grant funding will steadily reduce from circa £5.95m (includes an element of business rates

growth) in 2019/20 to £2.45m in 2023/24 uplifted for inflation year on year thereafter. This represents a cash decrease of £3.5m or 58.8% over the period.

- 1.4.3 We had previously assumed overall government grant funding in 2020/21 would be circa £2.4m uplifted for inflation year on year with the expectation that funding in the early years was likely to be in excess of this sum. It was the intention that the excess should be used to assist in meeting future savings and transformation contributions and/or help manage risk.
- 1.4.4 The excess, together with the positive take-up of the opt-in garden waste service over the period 2020/21 to 2022/23 could amount to circa £6m (£3m to be confirmed during 2020/21 budget cycle, £2m the following year and £1m the year after that). Investment of this sum in a property investment fund(s) for example, might be expected to generate investment income of £240,000 from 2022/23 onwards. *Alternative use of these funds could be identified that deliver an equivalent or better return / improved service delivery.*
- 1.4.5 However, the above **is not** contributing to one or more of the savings and transformation contributions as we hoped it might this time last year. **Instead**, amongst other things, it is negating the impact of the inflationary increase in the waste services contract sum each year the MTFS is rolled forward, lower investment rates and recent establishment changes which would have seen the funding gap increase to circa £800,000.
- 1.4.6 A hypothetical example of how the assumed overall government grant funding of £2.45m in 2023/24 might be made up is:
- business rates baseline (£1.5m)
 - business rates growth (£250,000) and
 - NHB replacement (£700,000).

1.5 Council Tax Referendum Principles

- 1.5.1 This time last year the MTFS assumed a council tax increase of £5 for the year 2020/21 representing a 2.4% increase in council tax. The referendum principles in 2019/20 were 3%, or more than 3% and more than £5. It has been suggested that the referendum principle for district councils in 2020/21 is to be 2%. Clearly, if confirmed this would have an adverse impact on the Council's finances and to a greater extent if set at this level in future years.

1.6 MTFS Update

- 1.6.1 So where do we now assess the projected funding gap? Based on the above early indications at a high level suggest circa £550,000, the same as that when setting the budget for 2019/20 in February 2019.

1.6.2 In September, we reported to the Finance Innovation & Property Advisory Board that, taking into account budget pressures highlighted within the Financial Planning and Control report, the funding gap had increased to circa £675,000.

1.6.3 **However**, since then we have been assessing other budget or potential budget pressures in the 'pipeline' including:

- the increase in the homelessness caseload,
- demands on the IT infrastructure and
- the pension fund triennial valuation (to put this into context a 1% change in employers' contribution rates equates to circa £80,000).

1.6.4 These, when taken together, could push the projected funding gap back up to **£800,000 with this sum doubling were NHB to be withdrawn and not replaced**. Cabinet will appreciate that this highlights very starkly why it is important to identify and implement opportunities to deliver at least this year's savings and transformation contribution of £100,000.

1.7 Savings and Transformation Strategy

1.7.1 Alongside the MTFs sits a Savings and Transformation Strategy. 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.

1.7.2 The number, scale and timing of requisite savings and transformation contributions to be determined as we move through the forthcoming budget cycle.

1.8 The 2020-21 Local Government Finance Settlement Technical Consultation

1.8.1 As this report is being finalised for publication, on 3 October, the MHCLG published 'The 2020-21 Local Government Finance Settlement Technical Consultation'. The consultation can be found at:

<https://www.gov.uk/government/consultations/local-government-finance-settlement-2020-to-2021-technical-consultation>

1.8.2 The consultation document sets out the Government's plans for allocating resources to local authorities, plus the proposals regarding council tax referendum principles (see paragraph 1.5). Once responses have been considered, it is the government's intention to formulate proposals in the 2020-21 Provisional Local Government Finance Settlement (expected in December).

1.8.3 Due to the timing of receipt of this consultation, it has not been possible to assess and formulate a response which can be agreed by Cabinet. Therefore it is recommended that delegated authority is given to the Director of Finance & Transformation, in liaison with the Leader and the Cabinet Member for Finance

Innovation and Property, to respond to the Technical Consultation prior to the deadline of 31 October.

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.
- 1.9.3 The Local Government Finance Act 2012 and regulations that followed introduced the current Business Rates Retention scheme.

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 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.
- 1.10.3 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.
- 1.10.4 Funding to remove 'Negative RSG' for a second year is clearly welcome, albeit what happens after that is subject to the outcome of the expected multi-year settlement to follow and the Fair Funding Review.
- 1.10.5 The year 2019/20 and now 2020/21 could be seen as a holding year as we await the outcome of the expected multi-year settlement to follow and the Fair Funding Review making financial planning that more difficult. How we will fair at the end of that process compared to that assumed a critical piece of the jigsaw.
- 1.10.6 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?

1.11 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 continuing uncertainty and volatility surrounding local government finances does not aid financial planning with the increased risk of significant variations compared to projections; and the consequent implications on the level of reserves held.
- 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 Equality Impact Assessment

- 1.12.1 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.

1.13 Policy Considerations

- 1.13.1 Business Continuity/Resilience
- 1.13.2 Community

1.14 Recommendations

- 1.14.1 Cabinet are **RECOMMENDED** to:

- 1) note the latest MTFs position statement and the need to at least meet the commitment to identify and implement opportunities to deliver this year's savings and transformation contribution of £100,000; and
- 2) give delegated authority to the Director of Finance & Transformation, in liaison with the Leader and the Cabinet Member for Finance, Innovation and Property, to respond to the Technical Consultation prior to the deadline of 30 October.

Background papers:

Nil

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