

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

**08 January 2020**

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

**Part 1- Public**

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

**1 REVENUE ESTIMATES 2020/21**

**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 2020/21 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 2020/21. 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 15 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 13 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 13 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2020/21 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 18 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 2019/20 and the Estimates for 2020/21 attached at **[supplementary Annex 1]** 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. 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.

1.2.2 It is proposed subject to review each year that the **maximum 'annual capital allowance'** be increased from £200,000 to £250,000 to reflect cost inflation.

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 aware of the 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 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.

1.2.5 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.

- 1.2.6 The MTFs will need to be updated and rolled forward as part of the 2020/21 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 1.11.

### 1.3 Provisional 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 this has proved not to be the case with a Settlement Funding Assessment (SFA) for one year only (2020/21) and the Fair Funding Review also deferred. As a result further prolonging the period of 'limbo' which again does little to aid medium term financial planning. Furthermore, the proposed move to a 75% Business Rates Retention Scheme in 2020/21 has also been deferred.
- 1.3.3 At the time of writing the provisional local government finance settlement for 2020/21 is awaited. The figures have, therefore, been based on the proposed approach set out in the Local Government Finance Settlement 2020/21: Technical Consultation published on 3 October 2019.
- 1.3.4 The Consultation suggests the Settlement for 2020/21 will be similar to that in 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. 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.
- 1.3.5 As a result 2019/20 and now 2020/21 could be seen as a **holding year**.
- 1.3.6 Our provisional SFA for the year 2020/21 as shown in the table below is expected to be £2,303,352, a cash increase of £38,502 or 1.7% when compared to the equivalent figure of £2,264,850 in 2019/20.

#### *New Homes Bonus*

- 1.3.7 The Consultation also suggests New Homes Bonus (NHB) is to continue in its current form in 2020/21 and where the baseline below which NHB will not be paid

remains at 0.4%. On that basis the Council's NHB for the year 2020/21 as shown in the table below is expected to be £3,375,039, a cash decrease of £82,389 or 2.4% when compared to the equivalent figure of £3,457,428 in 2019/20.

- 1.3.8 However, NHB, in its current form at least, is highly unlikely to continue beyond 2020/21 where legacy payments only, excluding the 2020/21 allocation, will be received, the last of which in 2022/23. Notwithstanding NHB would have continued to reduce over time as the changes already made to the scheme worked their way through the system and the recent above average housing delivery fell out of the calculation to around £1.8m.
- 1.3.9 The future of NHB or a replacement remains the subject of discussion. To put this into context NHB could:
- Continue in its current form – NHB £1.8m
  - Withdrawn and not replaced – NHB £nil placing the Council's finances under severe pressure.
  - Replaced, but where the funding stream and sum awarded is much reduced – for example NHB replacement £900,000 or half that of NHB.
- 1.3.10 This is a dramatic change to the sums (in excess of £3m) we have so far received. It remains our ambition to restructure the MTFs so it is not as reliant on NHB or its replacement.

*Overall Government Grant Funding (Settlement Funding Assessment + NHB)*

- 1.3.11 Overall, grant funding including NHB for the year 2020/21 as shown in the table below is expected to be £5,678,391, a cash decrease of £43,887 or 0.8% when compared to the equivalent figure of £5,722,278 in 2019/20.

	2019/20	2020/21	Cash Increase/ (Decrease)	
	£	£	£	%
Local Share of Business Rates (baseline)	2,264,850	2,303,352	38,502	1.7
Tariff Adjustment ('negative RSG')				
<b>Settlement Funding Assessment</b>	<b>2,264,850</b>	<b>2,303,352</b>	<b>38,502</b>	<b>1.7</b>
<b>New Homes Bonus</b>	<b>3,457,428</b>	<b>3,375,039</b>	<b>(82,389)</b>	<b>(2.4)</b>
<b>Overall Grant Funding</b>	<b>5,722,278</b>	<b>5,678,391</b>	<b>(43,887)</b>	<b>(0.8)</b>

- 1.3.12 It is requested that in the absence of the provisional local government finance settlement which is subject to consultation and the budget timetable, delegated

authority be granted to the Director of Finance and Transformation in liaison with the Cabinet Member for Finance, Innovation and Property to respond to the consultation when received as appropriate.

#### **1.4 Kent Business Rates Pool**

1.4.1 The Council is a member of the Kent Business Rates Pool. In the event that the Council exceeds its baseline funding level will pay a reduced levy to Central Government. If the Council fails to achieve 92.5% of its baseline a safety net payment is made by the Pool up to this level.

1.4.2 The proposed move to a 75% Business Rates Retention Scheme has been deferred.

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

1.5.1 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.

1.5.2 For the year 2020/21, it is expected a referendum will be triggered where council tax is increased by **2%, or more than 2% and more than £5**.

1.5.3 Referendum principles currently do not apply to town and parish councils.

#### **1.6 Specific Issues**

1.6.1 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.

1.6.2 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. 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.

1.6.3 Recommendations regarding fees and charges are made during this cycle of meetings and reflected in the revenue estimates. Any subsequent 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 13 February.

1.6.4 Other than loss of investment income and the car parking improvement works capital plan scheme, the revenue estimates do not take account of the addition of

new capital schemes to the Capital Plan. At its meeting on 13 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.

- 1.6.5 The contribution to the Revenue Reserve for Capital Schemes funded from the general revenue reserve in 2019/20 is to be increased from £557,000 to £1,024,000 to meet in part the increased costs of the major programme of works at Larkfield Leisure Centre. The contribution in 2020/21 is to be set at £850,000 part of which for the purchase of temporary accommodation. The annual contribution thereafter is to be set at £250,000 and rolled forward one year to 2025/26.
- 1.6.6 The contribution to the Building Repairs Reserve in 2019/20 and 2020/21 is to be set at £725,000 and £1,075,000 respectively in recognition of recent cost pressures. Includes the estimated cost of £275,000 in respect of walkway repairs at Martin Square and Twisden Road for which the Council is liable under the terms of the lease agreement with Clarion Homes. The annual contribution thereafter to meet ongoing maintenance and repair obligations is to be increased from £650,000 to £700,000.
- 1.6.7 It is proposed a specific earmarked reserve be established in the sum of initially £250,000 to fund Climate Change initiatives.
- 1.6.8 The MTFS assumes 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. It is proposed sums received in excess of £2.45m in each of the years 2020/21 to 2022/23 be used to establish a Budget Stabilisation reserve to manage risk and or assist in meeting future savings and transformation contributions and in 2020/21 is expected to be circa £3,500,000.
- 1.6.9 Turning to the individual Estimates, particular issues to be drawn to Members attention are set out below:

### **Corporate Services**

- 1.6.10 Particular issues to be drawn to Members' attention:
- 1) Salary estimates (CS 2) – Reflects 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, provision for pay inflation and outcome of the recent pension fund triennial valuation.
  - 2) Legal Expenses (CS 7) – Budget for 2019/20 includes estimated cost of the Kings Hill sites planning inquiry met in part from an earmarked reserve.

- 3) Information Technology Services (CS 9) – Estimates reflect increased demand on the IT infrastructure.
- 4) Payments to Members (CS 12) – Reflects the recommendations of the Joint Independent Remuneration Panel approved by Council in April 2017.

### **Chief Executive**

1.6.11 Particular issues to be drawn to Members' attention:

- 1) Conduct of Elections (CE 4) – Includes costs incurred in respect of the May 2019 Borough Election funded from an earmarked reserve established for this purpose.
- 2) Economic Development and Regeneration (CE 6) – Includes support for economic initiatives funded from the 2018/19 Kent and Medway 100% Business Rates Retention Pilot; and appointment of a graduate Economic Regeneration Officer for a 12 month period funded from the Kent Business Rates Pool Growth Fund.

### **Director of Central Services**

1.6.12 Particular issues to be drawn to Members' attention:

- 1) Tonbridge Castle Gatehouse (CEN 2) – Scheme to renew the lighting in the Great Hall deferred to 2020/21.
- 2) Information and Publicity (CEN 3) – Reflects the appointment of a full-time Head of Communications for a three year period.
- 3) Local land charges income (CEN 4) – Reflects current and anticipated market demand.
- 4) Commercial Property (CEN 6) – Includes the estimated cost of £275,000 in respect of walkway repairs at Martin Square and Twisden Road for which the Council is liable under the terms of the lease agreement with Clarion Homes.
- 5) Land Review (CEN 8) – Assumes the sale of the River Walk Offices is concluded in 2020/21.
- 6) Licensing income (CEN 10) – Reflects current and anticipated demand and proposed increases in fees from April 2020 approved by the Licensing and Appeals Committee on 26 November 2019.

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

1.6.13 Particular issues to be drawn to Members' attention:

- 1) Housing Benefits (FT 2) – Estimates reflect anticipated reduction in benefits expenditure as a result of welfare reform changes and the introduction of Universal Credit for new claims.
- 2) Housing Benefits (FT 2 and FT 4) – 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) Council Tax Support (FT 4) – The revised estimate includes the consultation on proposed changes to the Council Tax Support Scheme funded from an earmarked reserve.
- 4) Council Tax Support (FT 4) – A paper elsewhere on the agenda proposes a new scheme from April 2020. If agreed, one of the elements will be online notification of awards which will reduce the postage budget by some £14,000 and this is anticipated in the Estimates papers as a saving.

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

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

- 1) Development Management (PHEH 2) – Reflects grant funding received from the MHCLG to tackle illegal development and associated expenditure.
- 2) Development Management (PHEH 2) – Planning applications fee income has been reduced in the 2019/20 revised estimate to reflect the current economic uncertainty and volatility of the development environment.
- 3) Preparation of Local Development Framework (PHEH 5) – Reflects costs associated with the preparation of the Local Plan to be funded from an earmarked reserve. The annual contribution to the reserve is to be increased from £40,000 to £80,000 from 2020/21.
- 4) Planning Policy (PHEH 6) – Reflects grant funding received from the MHCLG for the Borough Green Gardens project and associated expenditure.
- 5) Homelessness (PHEH 9 and PHEH 10) – Reflects grant funding received from the MHCLG in respect of the Rough Sleeping and Rapid Rehousing Pathway initiatives and associated expenditure.
- 6) Homelessness (PHEH 9 and PHEH 10) – Reflects the increase in the number of households placed in temporary accommodation following the introduction of the Homelessness Reduction Act.
- 7) Homelessness (PHEH 9 and PHEH 10) – Reflects income and expenditure associated with additional Council owned temporary accommodation.



- 8) Private Sector Housing Renewal (PHEH 13) – 2019/20 estimates include revenue initiatives funded from the Better Care Fund (BCF). It is anticipated in future the BCF will be required in full to meet mandatory DFG spend only and as such no funding is available to fund revenue initiatives beyond 2019/20. Costs for the six month period April to September 2020 are to be funded from an earmarked reserve to allow time for the Overview and Scrutiny Committee review to be concluded and BCF 2020/21 funding announcement.
- 9) Environmental Protection (PHEH 17) – Includes landfill gas investigation and risk assessment work at Priory Wood and monitoring work at former Joco Pit site in 2019/20, the latter funded from an earmarked reserve.

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

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

- 1) Refuse Collection and Recycling (SSLTS 2 to SSLTS 4) – Estimates reflect the roll-out of the new kerbside waste collection service from 30 September 2019.
- 2) Refuse Collection and Recycling (SSLTS 2 and SSLTS 3) – An additional one-off communication / marketing budget of £40,000 has been allowed in the 2020/21 estimates to be funded from an earmarked reserve.
- 3) Recycling (SSLTS 3 and SSLTS 4) – Take-up of new opt-in garden waste collection service has been much higher than originally estimated.
- 4) Tonbridge and Malling Leisure Trust (SSLTS 8) – Increase in the employers' pension contribution rate following recent triennial valuation and in turn the payment due to the Trust under the management agreement.
- 5) Larkfield Leisure Centre (SSLTS 9) – Loss of income claim in respect of the ventilation, boiler and pool hall roof works higher than anticipated. Increase is to be funded from an earmarked reserve.
- 6) Tonbridge Castle Grounds (SSLTS 15) – Revised estimate reflects urgent reinstatement works to the Castle Motte following storm damage. Funded in large part from government grant.
- 7) Open Spaces & Amenity Areas (SSLTS 18) – Revised estimate reflects high priority repair works to Council owned bridges and works to protect an area of open space at Castle Way, the latter partly funded by parish council.
- 8) Off-Street Parking (SSLTS 32 and SSLTS 33) – Short stay income continues to reduce due to growth in home delivery of groceries. Partly off-

set by reduced ticket refunds and increased use of long stay car parks by leisure users.

- 9) Off-Street Parking and On-Street Parking (SSLTS 32 to SSLTS 35) – Includes proposed increase in fees and new charges recommended, subject to consultation, by the Street Scene and Environment Services Advisory Board on 30 October 2019.

## 1.7 Revised Revenue Estimates 2019/20

1.7.1 Overall, the draft 2019/20 Revised Estimates show an increase over the Original Estimates of £470,050 prior to making a contribution to/from the General Revenue Reserve.

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

Description	DR £	CR £	
Revenue Reserve for Capital Schemes	467,000		
Climate Change Reserve	250,000		
Business Rates Retention Scheme	106,800		
Waste Services Contract	98,400		
Temporary Accommodation	95,750		
Salaries & Contributions	88,150		
Building Repairs Reserve	75,000		
Housing Benefits	60,000		
Information Technology	46,700		
Legal Expenses	30,000		
Open Spaces and Amenity Areas	29,750		
Contaminated Land	27,500		
Payments to Principals / Ticket Refunds		45,000	
Loss of Income Claims		48,600	
Brexit Grant		70,000	
Investment Income		92,000	
TMLT Reserve		100,000	
Contributions from KCC		156,500	
Major Income Streams		286,850	
Other Net Changes		106,050	<b>DR</b>
<b>Total</b>	<b>1,375,050</b>	<b>905,000</b>	<b>470,050</b>

## 1.8 Revenue Estimates 2020/21

1.8.1 Overall, the draft 2020/21 Estimates show an increase over the 2019/20 Original Estimates of £800,695 prior to making a contribution to/from the General Revenue Reserve.

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

<b>Description</b>	<b>DR £</b>	<b>CR £</b>	
Budget Stabilisation Reserve	3,500,000		
Building Repairs Reserve	425,000		
Salaries & Contributions	352,450		
Recycling Income	111,000		
Business Rates Retention Scheme	92,244		
New Homes Bonus	82,400		
Council Tax Surplus	81,101		
Information Technology	51,200		
Temporary Accommodation	46,000		
Local Development Framework Reserve	40,000		
TMLT Employers' Superannuation Costs	35,000		
Energy	29,950		
Payments to Principals / Ticket Refunds		26,000	
Country Parks Parking Income		32,000	
Investment Income		42,000	
On-Street Parking Income		56,000	
TMLT Reserve		100,000	
Revenue Reserve for Capital Schemes		337,000	
Waste Services Contract		341,400	
Property Investment Fund Reserve		500,000	
Major Income Streams		832,600	
Loss of Income Claims		900,000	
Business Rates Retention Scheme Reserve		950,000	
Other Net Changes	71,350		<b>DR</b>
<b>Total</b>	<b>4,917,695</b>	<b>4,117,000</b>	<b>800,695</b>

1.8.3 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.

## 1.9 Draft Capital Plan

1.9.1 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.
- 1.9.2 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 13 February for endorsement by Council. With this in mind as noted at paragraph 1.6.4, other than loss of investment income and the car parking improvement works capital plan scheme, the revenue consequences of new capital schemes **have yet to be incorporated**.
- 1.9.3 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.
- 1.9.4 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. It is proposed subject to review each year that the maximum 'annual capital allowance' **be increased to £250,000** for the period 2020/21 to 2025/26. It should be noted, based on current projections, that from 2026/27 the Council may need to borrow to fund such expenditure.
- 1.9.5 This does not however, preclude a decision to borrow in order to fund in full or in part a commercial investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return. Each such opportunity to be considered on a case by case basis as appropriate.
- 1.9.6 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.

## **1.10 Consultation with Non-Domestic (Business) Ratepayers**

- 1.10.1 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.
- 1.10.2 Any comments or representations received from the consultees will be reported to Members during the budget process as appropriate.

## 1.11 Medium Term Financial Strategy Update

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

*Overall Government Grant Funding (Settlement Funding Assessment + NHB)*

- 1.11.2 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.
- 1.11.3 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. A cash decrease of £3.5m or 58.8% over the period.
- 1.11.4 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).

*Business Rates Retention Scheme*

- 1.11.5 The ongoing impact of the Business Rates Retention Scheme and the move to an 'interim' 75% Retention Scheme deferred to 2021/22 and an 'eventual' 100% Retention Scheme.
- 1.11.6 Beyond 2020/21, 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*

- 1.11.7 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.
- 1.11.8 For the year 2020/21, it is expected a referendum will be triggered where council tax is increased by **2%, or more than 2% and more than £5**. This time last year the MTFS assumed a council tax increase of £5 representing a 2.4% increase in council tax.
- 1.11.9 For the purposes of preparing the budget papers and updating the MTFS an **increase of £5 in 2020/21** has been assumed and each year thereafter.

### *Funding Gap*

1.11.10 As we know, the funding gap is not static and constantly changes in response to both internal and external factors. When setting the budget for 2019/20 in February 2019, the funding gap was anticipated to be circa £550,000.

1.11.11 In October 2019, following an interim high level review of our MTFs and the anticipated challenges we were expecting to face, a report to Cabinet suggested that when taken together budget or potential budget pressures in the 'pipeline' could push the funding gap to circa £800,000. Since then a series of decisions or recommendations have been made by Members which have been incorporated into these draft Estimates and accordingly, amongst other things, have contributed to our savings and transformation contributions, netting the projected outstanding funding gap down to £320,000. By way of example:

- 1) Purchase of temporary accommodation for homelessness purposes.
- 2) Transfer of ownership and responsibility for public conveniences to the relevant town/parish council or disposal.
- 3) Impact of pension fund triennial valuation less than expected.
- 4) Recommendations regarding fees and charges including existing and proposed new car parking charges recommended, subject to consultation, by the Street Scene and Environment Services Advisory Board.
- 5) Much higher take-up of the opt-in garden waste service.
- 6) Inflationary uplift applied to the waste services contract sum.
- 7) Not forgetting that the sale of both River Walk Offices and River Lawn Amenity Land, together with the closure of customer surgeries are also included in the financial position presented.

**1.11.12 Clearly, if one or more of the above are not actioned either in full or in part or the savings and transformation contribution is less than that assumed the projected funding gap increases accordingly.**

1.11.13 The MTFs will continue to be updated as we move through the 2020/21 budget cycle and as more information becomes available and in due course presented with the Budget report to Cabinet in February.

## **1.12 Savings and Transformation Strategy**

1.12.1 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.

- 1.12.2 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*

- 1.12.3 To recap, this year's savings and transformation contribution was set at £100,000 and to date **net savings in the order of £230,000 have been identified** when looking across the ten-year period of the MTFS as summarised in the table below.
- 1.12.4 Factors that have contributed towards meeting this year's contribution include the waste services contract, recommendations regarding fees and charges, purchase of temporary accommodation and review of public conveniences provision. Factors that have taken the funding gap in the 'wrong' direction include increase in homeless caseload, government grant and demand on the IT infrastructure.

	<b>£'000</b>
Savings and Transformation Contributions Identified to Date	(369)
Other Factors Impacting on MTFS	139
<b>Net (Savings) / Budget Growth</b>	<b>(230)</b>

- 1.12.5 This time last year the projected funding gap was £550,000 and a year on, all other things being equal, was expected to be £450,000. **The latest projected 'outstanding' funding gap is £320,000** (£550,000 - £230,000). The number, scale and timing of requisite future savings and transformation contributions is the subject of consideration.

### **1.13 Legal Implications**

- 1.13.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.13.2 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.

## 1.14 Financial and Value for Money Considerations

- 1.14.1 The 2020/21 provisional local government finance settlement is expected to be relatively positive for TMBC, which is welcome news. However, as I have said, this is a “further” 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?
- 1.14.2 Funding beyond 2020/21 **dependent** on 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.
- 1.14.3 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.

## 1.15 Risk Assessment

- 1.15.1 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.
- 1.15.2 This report has been drafted without the benefit of receiving the provisional local government finance settlement which has been delayed due to the calling of the snap General Election. As outlined in the report, therefore, the figures have been based on the proposed approach set out in the Local Government Finance Settlement 2020/21: Technical Consultation published on 3 October 2019. There is a risk that the approach set out in the Consultation might be changed either moderately or significantly.
- 1.15.3 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.

- 1.15.4 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 variations compared to projections; and the consequent implications on the level of reserves held.
- 1.15.5 A council tax referendum principle of 2% rather than £5 would generate a lower council tax yield than that assumed and, in turn, increase the required savings and transformation contributions and the position made progressively worse if repeated across the medium term.
- 1.15.6 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.
- 1.15.7 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 with potential adverse budget implications.
- 1.15.8 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.
- 1.15.9 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

## **1.16 Equality Impact Assessment**

- 1.16.1 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.

## **1.17 Policy Considerations**

- 1.17.1 Business Continuity/Resilience
- 1.17.2 Community

## **1.18 Recommendations**

- 1.18.1 The Advisory Board is asked to:
  - 1) Endorse subject to review each year that the maximum 'annual capital allowance' be increased from £200,000 to £250,000.

- 2) Agree that delegated authority be granted to the Director of Finance and Transformation in liaison with the Cabinet Member for Finance, Innovation and Property to respond to the provisional local government finance settlement when received as appropriate.
- 3) Endorse that a specific earmarked reserve be established in the sum of initially £250,000 to fund Climate Change initiatives.
- 4) Endorse that a Budget Stabilisation reserve be established in the sum of £3,500,000 to manage risk and or assist in meeting future savings and transformation contributions.
- 5) Consider the draft Revenue Estimates attached at **[Annex 1]** and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 13 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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