

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

15 January 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

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 Committee 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 Committee to the Cabinet.
- 1.1.2 A special meeting of the Cabinet is scheduled for the 13 February to consider the recommendations of this Committee and of the Finance, Innovation and Property Advisory Board 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 Committee is to consider both the Revised Estimates for 2019/20 and the Estimates for 2020/21 (see [Annex 1] to the report presented to the meeting of the Finance, Innovation and Property Advisory Board) 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.

1.1.5 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. Members are referred to the report presented to the meeting of the Finance, Innovation and Property Advisory Board for further details on the Estimates and subsequent recommendations.

1.1.6 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.

1.2 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 1.8.

1.3 Provisional Local Government Finance Settlement 2020/21

Settlement Funding Assessment (Core Funding)

- 1.3.1 On 20 December 2019, the Secretary of State for the Ministry of Housing, Communities and Local Government, Robert Jenrick MP, made a statement to Parliament on the provisional local government finance settlement for 2020/21. The provisional settlement is expected to be confirmed in late January 2020.
- 1.3.2 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.
- 1.3.3 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.
- 1.3.4 The SFA for 2020/21 is not 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. 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 £2,301,752, a cash increase of £36,902 or 1.6% when compared to the equivalent figure of £2,264,850 in 2019/20.

New Homes Bonus

1.3.7 Similarly, 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%. The Council's NHB for the year 2020/21 as shown in the table below is £3,375,063, a cash decrease of £82,365 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 £5,676,815, a cash decrease of £45,463 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 | 2,301,752 | 36,902 | 1.6 |
| Tariff Adjustment ('negative RSG') | | | | |
| Settlement Funding Assessment | 2,264,850 | 2,301,752 | 36,902 | 1.6 |
| | | | | |

| | | | | |
|------------------------------|------------------|------------------|-----------------|--------------|
| New Homes Bonus | 3,457,428 | 3,375,063 | (82,365) | (2.4) |
| | | | | |
| Overall Grant Funding | 5,722,278 | 5,676,815 | (45,463) | (0.8) |

1.3.12 It is requested in view of the timescales involved and the programming of meetings, 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 provisional settlement, which is subject to consultation, 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, 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 Draft Capital Plan

1.6.1 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.

- 1.6.2 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 Members are advised that, 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**.
- 1.6.3 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.
- 1.6.4 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.
- 1.6.5 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.
- 1.6.6 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.

1.7 Consultation with Non-Domestic (Business) Ratepayers

- 1.7.1 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.
- 1.7.2 Any comments or representations received from the consultees will be reported to Members during the budget process as appropriate.

1.8 Medium Term Financial Strategy Update

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

Overall Government Grant Funding (Settlement Funding Assessment + NHB)

- 1.8.2 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.
- 1.8.3 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.
- 1.8.4 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

- 1.8.5 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.
- 1.8.6 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

- 1.8.7 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.
- 1.8.8 For the year 2020/21, 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.
- 1.8.9 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

- 1.8.10 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.
- 1.8.11 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.
- 1.8.12 **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.**
- 1.8.13 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.

1.9 Savings and Transformation Strategy

- 1.9.1 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.

- 1.9.2 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

- 1.9.3 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.
- 1.9.4 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.

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

- 1.9.5 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.

1.10 Finance, Innovation and Property Advisory Board

- 1.10.1 The draft Revenue Estimates are to be considered in detail at the meeting of the Finance, Innovation and Property Advisory Board on 8 January where a number of officers will be available to answer detailed questions.
- 1.10.2 It is not our intention to replicate the officer representation at this meeting and assume that Members will wish to focus on the strategic aspects of the Estimates rather than the detail. If Members do have detailed questions, please contact Neil Lawley, Chief Financial Services Officer on extension 6095 or by e-mail at neil.lawley@tmbc.gov.uk in advance of the meeting. Where appropriate, he will liaise with the relevant Services and advise accordingly.

1.11 Legal Implications

- 1.11.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.
- 1.11.2 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.

1.12 Financial and Value for Money Considerations

- 1.12.1 The 2020/21 provisional local government finance settlement is 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?
- 1.12.2 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.
- 1.12.3 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.

1.13 Risk Assessment

- 1.13.1 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.
- 1.13.2 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.

- 1.13.3 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 variations compared to projections; and the consequent implications on the level of reserves held.
- 1.13.4 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.
- 1.13.5 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 with potential adverse budget implications.
- 1.13.6 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.
- 1.13.7 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.14 Equality Impact Assessment

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.

1.15 Policy Considerations

1.15.1 Business Continuity/Resilience

1.15.2 Community

1.16 Recommendations

1.16.1 The Committee 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 as appropriate.

- 3) Consider the draft Revenue Estimates (see [Annex 1] to the report presented to the meeting of the Finance, Innovation and Property Advisory Board) and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 13 February.
- 4) 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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