TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

13 February 2020

Report of the Chief Executive, Director of Finance and Transformation, Leader of the Council and Cabinet Member for Finance, Innovation and Property

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET 2020/21

Further to reports to the meeting of the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee earlier in the cycle, this report updates Cabinet on issues relating to the Medium Term Financial Strategy. It also takes Members through the necessary procedures in order to set the Budget for 2020/21.
***Members are asked to note that at the time of writing this report, the final settlement has not been received. All figures contained in the report are based on the provisional settlement*.**

1.1 Introduction and Foreword

1.1.1 At the Full Council meeting on 18 February, Members will determine both the Budget and the level of council tax for 2020/21. The detailed Estimates for 2020/21 prepared by your Officers have been carefully considered by the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee. Details are set out at paragraph 1.4 below.

1.1.2 Whilst the primary purpose of this report is for Cabinet to recommend the Budget and resultant level of council tax for 2020/21; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy (MTFS) covering a ten-year period. Financial decisions made in respect of the year 2020/21 will have an impact across the MTFS and upon the required savings and transformation contributions the Council will need to achieve in order to 'balance its books' and we must not lose sight of the scale of this particular challenge.

1.1.3 The Localism Act requires a local authority to seek the approval of their electorate via a local referendum if it proposes to raise council tax above the threshold set by the Secretary of State. For the year 2020/21, based on information issued alongside the provisional settlement, a referendum will be triggered where council tax is increased by **2%, or more than 2% and more than £5**.

1.1.4 This time last year the MTFS assumed a council tax increase of £5 representing a 2.4% increase in council tax. 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.

1.1.5 Attached at **[Annex 1a]** for Members' information is a copy of the Referendums Principles setting out the level of council tax increase for 2020/21 above which the local authority would be required to seek approval of their electorate via a local referendum.

1.1.6 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.

1.1.7 The savings and transformation contribution identified to date in 2019/20 is £369,000. However, as always, there are other factors that can impact on the MTFS that either takes the funding gap in the right or wrong direction. When these factors are taken into account the net savings and transformation contribution identified to date in 2019/20 is £230,000 and the **latest projected 'outstanding' funding gap £320,000**.

1.1.8 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members' attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:

- Local Government Finance Settlement
- Kent Business Rates Pool
- Revenue Estimates 2020/21
- Fees and Charges
- Capital Plan
- Treasury Management and Annual Investment Strategy
- Consultation with Non-Domestic (Business) Ratepayers
- Medium Term Financial Strategy Update
- Savings and Transformation Strategy
- Collection Fund Adjustments

- Special Expenses and Parish Council Precepts
- Robustness of the Estimates / Adequacy of the Reserves
- The Chartered Institute of Public Finance and Accountancy Financial Management Code and Financial Resilience Index
- Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

Settlement Funding Assessment (Core Funding)

1.2.1 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 consultation in respect of the provisional settlement closed on 17 January 2020 and at the time of writing, we have not received the final settlement. We do not, however, anticipate that the final settlement will be significantly different to the provisional.

1.2.2 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.

1.2.3 Given the diversion of parliamentary business on other matters this has proved not to be the case, and we have accordingly received a Settlement Funding Assessment (SFA) for one year only (2020/21). The Fair Funding Review has also been 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.

1.2.4 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.

1.2.5 As a result 2019/20 and now 2020/21 could be seen as a **holding year**.

1.2.6 Our 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

1.2.7 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.

1.2.8 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 may be in 2022/23 (subject to confirmation). 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.

1.2.9 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
- Be 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.

1.2.10 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)

1.2.11 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)**

1.2.12 The government in recent years has referred to the increase / (decrease) in an authority's core spending power. Using 2015/16 as the base year the increase in core spending power over the period calculated by the government in cash terms is £1,279,126 or 8.2%.

1.2.13 Of the twelve district councils in Kent Tonbridge & Malling Borough Council receives the lowest Settlement Funding Assessment both in total and per head. A comparison of our Settlement Funding Assessment with those of other Kent district councils is provided at **[Annex 1b]**.

1.3 Kent Business Rates Pool

1.3.1 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.

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

1.4 Revenue Estimates 2020/21

1.4.1 As mentioned in the Foreword, the draft Revenue Estimates for 2020/21 were presented to the meetings of the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Advisory Board and of the Committee is to assist both the Cabinet and the Council in the development of its budget within the context of the Medium Term Financial Strategy and the Council's priorities. Whilst a number of questions were posed by Members at these meetings, with the exception of a recommendation that the budget for Borough Christmas Lighting be capped at £40,000, the Revenue Estimates as presented were endorsed.

1.4.2 Adjustments made to the Revenue Estimates presented to the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee are detailed in the table below.

	Revised Estimate 2019/20 £	**Original Estimate 2020/21 £**
Summary Total reported to Finance, Innovation and Property Advisory Board on 8 January 2020	14,086,750	14,310,650
Delivery of additional recycling containers	67,000	
Extension of current bring site recycling arrangements	51,700	
Business Rates Retention Scheme Reserve	36,400	12,250
External Audit fees	6,600	2,200
Upper and Lower Medway Internal Drainage Boards		2,950

Borough Christmas Lighting		(8,000)
Housing Benefits / CTS Administration Grant		(16,600)
Under-indexing business rates multiplier		(18,450)
Tonbridge and Malling Leisure Trust pension costs		(20,700)
Current Summary Total	**14,248,450**	**14,264,300**

1.5 Fees and Charges

1.5.1 During the course of this budget cycle Members have, via the appropriate Advisory Boards, made recommendations regarding the levels of fees and charges to be implemented.

1.5.2 Proposals in respect of fees and charges recommended via the appropriate Advisory Boards have been reflected in the Budget. A summary of these recommendations, together with the resolution of Licensing and Appeals Committee in respect of licensing fees is set out at **[Annex 2]**. Members should note that in respect of car parking fees and charges, the proposals are presently out to public consultation.

1.5.3 Cabinet is accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards other than item SSE 19/25 which was endorsed at the meeting on 6 January.

1.6 Capital Plan

1.6.1 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 8 January followed by the Overview and Scrutiny Committee on 15 January.

1.6.2 Members' attention was drawn to the difficult financial landscape and the impact this has on the ability of the Council to invest in capital schemes. It was, however, also acknowledged that some capital projects can have a beneficial effect on the revenue position by either generating additional or new income, or alternatively producing cost savings in due course.

1.6.3 Members were reminded of 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). The criteria are:

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

1.6.4 The subsequent recommendations where appropriate have regard to these criteria.

1.6.5 Capital expenditure is currently funded from the revenue reserve for capital schemes, grants from government and other bodies, developer contributions and from capital receipts derived from the sale of assets.

1.6.6 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.

1.6.7 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.

1.6.8 It should be noted, based on current projections, that from 2026/27 the Council may need to borrow to fund such expenditure. 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.

1.6.9 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.

1.6.10 The Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers. The recommendations were:

1) Cabinet be asked to endorse the Capital Plan (List A) position at Annex 1 (FIPAB agenda) and summarised at **[Annex 3]**.

2) The schemes listed in **[Annex 4]** are added to List C or deleted from List C as detailed.

3) The schemes listed in **[Annex 5]** are selected for evaluation over the coming year. On this occasion, four new schemes have been recommended including three for Fast-Track evaluation. In addition, there are four schemes selected for evaluation in a previous Review that are either on hold following evaluation, subject to further evaluation or yet to be evaluated as follows: Tonbridge Farm Sportsground – Provision of Toilets, Leybourne Lakes Country Park – Facility Improvements, River Medway – Riverside Lighting, Tonbridge and Financial Services Document Management Software.

4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]**.

5) Cabinet be asked to endorse the Capital Strategy at Annex 4 (FIPAB agenda) for adoption by Council and publication on the Council's website.

1.6.11 The estimated annual revenue costs of the evaluated List C schemes are given in the table below. The amount and timing of any revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income. It can be seen that if the schemes are progressed as recommended the estimated revenue consequences are (£53,000) in 2020/21 and (£105,950) in subsequent years.

Scheme	**Capital Cost £**	**Revenue Impact**	
		2020/21 £	**2021/22 £**
Leybourne Lakes Country Park: Path Improvement Works	60,000	0	0
Tonbridge Cemetery Memorial Garden Vaults	16,000	300	650
Car Parking Improvement Works	210,000	(53,300)	(106,600)
Total	**286,000**	**(53,000)**	**(105,950)**

1.6.12 The estimated capital cost of the path improvement works at Leybourne Lakes Country Park is to be funded by way of external funding and developer contributions; and the memorial garden vaults and car parking improvement works can be met from the annual capital allowance of £250,000.

1.6.13 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.6.11 is attached at **[Annex 7]**.

1.6.14 A funding statement based on **[Annex 7]** is attached at **[Annex 8]**. The main source of funding is the Revenue Reserve for Capital Schemes and the impact on the Revenue Reserve for Capital Schemes is illustrated in **[Annex 9]**.

1.6.15 Accordingly, it is **RECOMMENDED** that:

1) Cabinet approves the existing Capital Plan (List A) position at Annex 1 (FIPAB agenda) and summarised at **[Annex 3]**.

2) Cabinet approves that the schemes listed in **[Annex 4]** are added to List C or deleted from List C as detailed.

3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year. On this occasion, four new schemes have been recommended including three for Fast-Track evaluation.

4) Cabinet approves the transfer of schemes detailed in **[Annex 6]** to List A.

5) Cabinet approves the updated Capital Plan (List A) as summarised in **[Annex 7]**.

6) Cabinet endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 8 January and Overview and Scrutiny Committee on 15 January.

1.7 Treasury Management and Annual Investment Strategy

1.7.1 The Local Government Act 2003 and its subsidiary regulations set out the framework for the system of capital controls which applied from 1 April 2004 whereby local authorities must set their own borrowing limits with regard to affordability, prudence and sustainability. Underpinning this is a requirement to follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.7.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice is adopted and that a number of prudential indicators are set.

1.7.3 An updated Prudential Code and Treasury Management Code were published by CIPFA in December 2017. The focus of both updates is to ensure the risks associated with investment in 'non-financial assets which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time.

1.7.4 Council adopted the December 2017 edition of the Codes in October 2018 and the requirements of the Codes have been taken into account and reflected as appropriate in the annual review and update of both the Capital Strategy and the Treasury Management and Annual Investment Strategy 2020/21.

1.7.5 The approval of the Treasury Management and Annual Investment Strategy and determination of the prudential indicators has to be made by Full Council, as do amendments to either the Strategy or indicators during the year.

1.7.6 The Prudential Code under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set. These are set out below along with any discretionary – local (L) indicators used.

1) The capital financing requirement - the extent to which the authority needs to undertake external borrowing to support its capital programme.

2) The operational boundary for external debt.

3) The authorised limit for external debt.

4) The actual external debt.

5) The upper limit for fixed interest rate exposure.

6) The upper limit for variable rate exposure.

7) The upper limit for total principal sums invested for over 365 days.

8) The maturity structure for new fixed rate borrowing during 2020/21.

1.7.7 A summary of the indicators appears in the table below.

Treasury Management Prudential Indicators					
Prudential Indicator	**2018/19 Actual £'000**	**2019/20 Revised Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	4,000	4,000	4,000	4,000
The authorised limit for external debt	NIL	7,000	7,000	7,000	7,000
Actual external debt	NIL	NIL	NIL	NIL	NIL
The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%			
The upper limit for variable rate exposure < 1 year at year end	15,411 42.3%	It is anticipated that the net exposure will range between 40% to 100%			
The upper limit for total principal sums invested for over 365 days at year end	5,000 13.7%	60% of funds			
The maturity structure for new fixed rate borrowing during 2020/21		Upper Limit		Lower Limit	
Under 12 months		100%		NIL	
Over 12 months		NIL		NIL	

1.7.8 The capital financing requirement measures the amount of external borrowing that the Council expects to have to undertake in support of its capital programme. A nil figure indicates that no borrowing is required. As this Council is debt free and does not expect to have to borrow to support its capital programme over the period covered, this indicator is nil.

1.7.9 The operational boundary is designed to cover all day to day borrowing requirements. As this Council is debt free, borrowing is only undertaken on a short-term basis to cover cash flow management. The operational boundary which for a number of years has been set at £2m is to be increased to £4m to reflect the scale of payments that now arise each month.

1.7.10 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements. Likewise, the authorised limit which for a number of years has been set at £5m is to be increased to £7m.

1.7.11 As mentioned at paragraph 1.6.8 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 and the prudential indicators updated and approved accordingly.

1.7.12 The other prudential indicators we are required or choose to set are shown in the table below.

Prudential Indicators

1.	Ratio of actual and estimated financing costs to the net revenue stream		(Interest payable with respect to borrowing less interest and investment income) ÷ (government grants plus call on local taxpayers) x 100%.					
2018/19 actual -3.51%	2019/20 estimated -4.07%	2020/21 estimated -3.56%	2021/22 estimated -6.07%	2022/23 estimated -6.60%	2023/24 estimated -7.19%	2024/25 estimated -7.53%	2025/26 estimated -7.99%	
2.	Estimates of the incremental impact of capital investment decisions on the council tax (L)		The revenue impact of capital schemes added to the capital plan on the council tax Band D equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in **[Annex 10]**.					
Total		2020/21 estimated £ (1.03)	2021/22 estimated £ (2.06)	2022/23 estimated £ 0.00	2023/24 estimated £ 0.00	2024/25 estimated £ 0.00	2025/26 estimated £ 0.00	
3.	Actual and estimated capital expenditure		This indicator is based on the updated capital plan position. The figures are based on those shown in **[Annex 8]**.					
2018/19 actual £'000 3,587	2019/20 estimated £'000 7,681	2020/21 estimated £'000 3,876	2021/22 estimated £'000 2,416	2022/23 estimated £'000 2,250	2023/24 estimated £'000 3,053	2024/25 estimated £'000 2,196	2025/26 estimated £'000 2,099	

1.7.13 We, therefore, **RECOMMEND** that for the financial year 2020/21 the prudential indicators listed in paragraphs 1.7.7 and 1.7.12 be recommended to Council for adoption.

1.7.14 A local authority has a statutory duty to *"determine for the current financial year an amount of minimum revenue provision that it considers to be prudent*" in relation to its capital expenditure. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try and match the years over which such assets benefit the local community through their useful life.

1.7.15 The spreading of these costs is through what is termed an *annual minimum revenue provision*. As the Council is debt free and, at least in the short term, does not expect to borrow to support its capital programme the minimum revenue provision is nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing. Based on current estimates, this is not anticipated to be before 2026/27.

1.7.16 Members are asked to **Note** that for the financial year 2020/21 our *annual minimum revenue provision* is nil subject to the comment at paragraph 1.7.11.

1.8 Consultation with Non-Domestic (Business) Ratepayers

1.8.1 Representatives of the Council's Non-Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. 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. The deadline given for responses was 17 January 2020. ***Cabinet is advised that no comments have been received***.

1.9 Medium Term Financial Strategy Update

1.9.1 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 for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities.

1.9.2 The Strategy also sets out, based on current financial information, 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.

1.9.3 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.

1.9.4 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 (STS) 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.

1.9.5 As mentioned in the report to Cabinet on 16 October 2019, 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.

1.9.6 The budget for 2020/21 is, naturally, the starting point for updating the MTFS. Referring to paragraph 1.4.2, Members will note that the Summary Total for the 2019/20 Revised Estimates is £14,248,450; and for the 2020/21 Estimates is £14,264,300 and is used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]**.

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

Overall Government Grant Funding (Settlement Funding Assessment + NHB)

1.9.8 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.

1.9.9 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.

1.9.10 It is proposed that 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, assist in meeting future savings and transformation contributions and/or fund in full or in part an appropriate commercial investment opportunity. The excess in 2020/21 is circa £3.5m.

1.9.11 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

1.9.12 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.

1.9.13 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

1.9.14 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.

1.9.15 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. *Members should note that at the time of writing this report we have not received the final settlement nor the final accompanying statement regarding referendum principles. We do not, however, anticipate that there will be any change from the statement issued with the provisional settlement*.

1.9.16 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

1.9.17 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, projections at that time suggested a funding gap between expenditure and income of circa £550,000.

1.9.18 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 and endorsed by Cabinet.

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.

1.9.19 **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**.

1.9.20 **[Annex 11a]** sets out the picture for the MTFS.

1.10 Savings and Transformation Strategy

1.10.1 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.

1.10.2 A number of key themes have been identified, together with outline targets and timescales which need to be revisited and aligned with the latest projected funding gap.

Savings and Transformation Contributions

1.10.3 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.

1.10.4 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)**

1.10.5 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) as outlined in paragraph 1.9.18. ***It is important to note however that this assumes that all the recommendations made by Boards and Committees (e.g. the transfer of public conveniences to parish councils and the introduction of the car parking charges which are currently out to consultation) are delivered. If for whatever reason these are found not to be deliverable, the funding gap – and therefore the savings and transformation target – will increase.***

1.10.6 As in previous iterations of the MTFS the latest projected 'outstanding' funding gap can be broken down into tranches. The proposed number, scale and timing of requisite future savings and transformation contributions is given below.

1) Tranche 1 - £20,000 to be achieved by April 2021.

2) Tranche 2 - £300,000 to be achieved by April 2024.

1.10.7 Before turning to the updated STS, it is worth reflecting on the cumulative savings and transformation contributions either achieved or identified to date since the inception of the Strategy in 2016. **[Annex 11b]** sets out the individual savings and transformation contributions achieved or identified to date 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**	**By April 2020**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Income Generation & Cost Recovery	60	146	88	0	168	**462**
In-Service Efficiencies	200	77	50	0	0	**327**

Service Change & Reduction	0	100	3	65	201	**369**
Contracts	0	0	200	585	0	**785**
Organisation Structure Change	15	129	119	0	0	**263**
Partnership Funding	0	431	0	0	0	**431**
Asset Management	0	0	186	0	0	**186**
Total	**275**	**883**	**646**	**650**	**369**	**2,823**

1.10.8 An updated copy of the STS, recommended by Management Team, including revised outline targets and timescales for each of the themes totalling £320,000 can be found at **[Annex 11c]**.

1.10.9 It is probably worth reiterating that 2019/20 and now 2020/21 could be seen as 'holding' years as we await the expected multi-year settlement to follow and the outcome of the Fair Funding Review. How we will fair at the end of that process compared to that assumed an important piece of the jigsaw. ***The Director of Finance and Transformation is keen to stress that depending on the outcome and what happens to NHB further (potentially significant) savings could be required***.

1.10.10 Cabinet is **RECOMMENDED** to:

1) Endorse subject to review each year that the **maximum 'annual capital allowance'** be increased from £200,000 to £250,000 as detailed at paragraph 1.9.5.

2) Endorse that a Budget Stabilisation reserve be established in the sum of £3,500,000 to manage risk, assist in meeting future savings and transformation contributions and/or fund in full or in part an appropriate commercial investment opportunity as detailed at paragraph 1.9.10.

3) Note and endorse the updated MTFS **[Annex 11a]**.

4) Give guidance to Full Council as to the best way forward in updating the MTFS for the next ten-year period, and setting the council tax for 2020/21.

5) Note and endorse the updated STS **[Annex 11c]** including the proposed scale and timing of each of the required savings and transformation contributions set out at paragraph 1.10.6.

1.10.11 Turning back to the specific budget year 2020/21. The budget for 2020/21 includes a contribution **to** the general revenue reserve of £371,950 and a Summary of the Revenue Estimates Booklet is attached at **[Annex 12]**.

1.11 Collection Fund Adjustments

1.11.1 As the billing authority for the area, this Council has responsibility for maintaining the 'collection fund' accounts into which council tax and business rates are paid.

1.11.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to:

- Estimate the surplus / deficit on the collection fund for 2019/20 in respect of council tax and then share this between the major precepting authorities (including ourselves).

- Estimate the surplus / deficit on the collection fund for 2019/20 in respect of business rates and then share this between the relevant parties in accordance with the business rates retention scheme.

1.11.3 These are known as collection fund adjustments:

- The **surplus** on the collection fund for 2019/20 in respect of council tax is estimated to be £459,604. Our share, to be reflected in the 2020/21 Estimates is £66,826 **[Annex 13a]**.

- The **surplus** on the collection fund for 2019/20 in respect of business rates is estimated to be £2,057,735. Our share, to be reflected in the 2020/21 Estimates is £823,094 **[Annex 13b]**.

1.12 Special Expenses and Parish Council Precepts

1.12.1 A Special Expenses Scheme was introduced on the 1 April 2017 **[Annex 14a]**.

1.12.2 Details of the Special Expenses for 2020/21 are set out at **[Annex 14b]**. The basic amount of council tax of £197.68 plus the special expenses Band D charge, where applicable, gives the total Borough Council Band D charge for that area.

1.12.3 When publishing the Borough Council's level of council tax at Band D for "official" purposes in accordance with the prescribed methodology from the Ministry of Housing, Communities and Local Government (MHCLG), we are required to aggregate all expenditure (as if special expenses did not exist) and calculate a ***notional*** Band D figure. (This is so that the MHCLG can see that the referendum principles have been adhered to).

1.12.4 The resultant published (notional) council tax at Band D for 2020/21 is £214.50, being £5 or 2.4% higher than the published Band D council tax for 2019/20. As Members will note, no resident will actually pay this exact amount as the Borough Council's Band D – unless it is by coincidence.

1.12.5 Cabinet is requested to **ENDORSE** the special expenses calculated in accordance with the Special Expenses Scheme and set out at **[Annex 14b]**.

1.12.6 Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.13 The Robustness of the Estimates and the Adequacy of the Reserves

1.13.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annex 16]** sets out the projected general fund and general revenue reserve balances based on an increase of £5 to the notional council tax level.

1.13.2 The Local Government Act 2003 requires the Chief Financial Officer (in our case the Director of Finance and Transformation) to report to an authority, when making the statutory calculations required to determine its council tax, on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

1.13.3 What is required is the professional advice of the Director of Finance and Transformation on these two questions. This responsibility is discharged by way of a certified Statement.

1.13.4 The Director of Finance and Transformation advises that she is satisfied as to the robustness of the estimates and the adequacy of reserves on the understanding that the **required savings and transformation contributions based on latest projections in the sum of £320,000 are delivered in the timeframe assumed in the Medium Term Financial Strategy**.

1.13.5 The Statement referred to above is appended at **[Annex 17a]**. Members will note that overall the Director of Finance and Transformation signifies that, in her professional opinion, the estimates are robust and the level of reserves adequate.

1.13.6 A schedule of the reserves held by the Council at 1 April 2019 and proposed utilisation of those reserves to 31 March 2021 is provided at **[Annex 17b]**. As this Council's Chief Finance Officer, the Director of Finance and Transformation has undertaken a review of the earmarked reserves held and is satisfied as to the position depicted and will revisit the position as part of the closedown process for 2019/20.

1.13.7 Members are **RECOMMENDED** to note and endorse the Statement **[Annex 17a]** provided by the Director of Finance and Transformation.

1.14 The Chartered Institute of Public Finance and Accountancy Financial Management Code and Financial Resilience Index

1.14.1 In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances
- manage financial resilience to meet unforeseen demands on services

- financially manage unexpected shocks in their financial circumstances.

1.14.2 The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and sought to rely on the local exercise of professional judgement backed by appropriate reporting. None of this should be of particular concern to us as we believe good financial management is in all significant respects already embedded at Tonbridge and Malling.

1.14.3 Compliance will typically but not always be demonstrated by documenting compliance with the Statements of Standard Practice which underpin each of the Financial Management Standards. We see this requiring a response to each of the Statements of Standard Practice by way of a self-assessment which is to be progressed later this year and the outcome reported to the Finance, Innovation and Property Advisory Board.

1.14.4 In addition, the CIPFA Financial Resilience Index aims to provide a tool with a group of indicators able to illustrate the trajectory of an authority's financial position and resilience within the context of each authority's own comparator tier and nearest neighbour group. CIPFA has designed the index to provide reassurance and prompt challenge where it may be needed.

1.14.5 There are no particular concerns to draw to Members attention from a review of the Financial Resilience Index published in December 2019. A copy of the Index (tier comparator) is attached at **[Annex 17c]** for information.

1.14.6 Members are **RECOMMENDED** to note the requirements of the CIPFA FM Code and to demonstrate compliance by way of a self-assessment to be reported to a future meeting of the Finance, Innovation and Property Advisory Board; and the outcome of the review of the CIPFA Financial Resilience Index.

1.15 Calculation of Borough Council's Tax Requirement

1.15.1 The Council is required to calculate:

- Its aggregate expenditure which, for this purpose, includes our share of any Collection Fund deficit and the Parish Council precepts.

- Its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).

- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.15.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.10.10, the calculation is set out at **[Annex 18]**. It should be noted that, for this

purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

1.16 Legal Implications

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

1.16.2 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.

1.17 Financial and Value for Money Considerations

1.17.1 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?

1.17.2 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.

1.17.3 Furthermore, the impact of current economic conditions on Council finances / financial assumptions in respect of inflation, interest rates, income levels, etc. and the scale of the impact over the medium term is uncertain and difficult to determine.

1.17.4 The Capital Strategy outlines a capital plan process which follows the CIPFA Prudential Code and in addition to supporting the achievement of the Council's strategic priorities and objectives, focuses on value for money.

1.18 Risk Assessment

1.18.1 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.

1.18.2 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.**

1.18.3 **Members are also reminded that the funding gap set out in the report assumes that all the recommendations made by Boards and Committees (e.g. the transfer of public conveniences to parish councils and the introduction of the car parking charges which are currently out to consultation) are delivered. If for whatever reason these are found not to be deliverable, the funding gap – and therefore the savings and transformation target – will increase.**

1.18.4 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 variances compared to projections; and the consequent implications on the level of reserves held.

1.18.5 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.

1.18.6 The Inter Authority Agreement with KCC as part of the Waste Services Contract may not be extended beyond the initial 8 year period of the contract, 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.

1.18.7 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.

1.18.8 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's strategic priorities and objectives.

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

1.18.10 At the time of finalising this report for agenda publication, we have not received the final local government finance settlement. **Figures contained within this report are, therefore, based on the provisional settlement**. We do not

anticipate there being any significant difference in the 'final' figures. Members will, of course, be updated as appropriate.

1.19 Equality Impact Assessment

1.19.1 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.

1.20 Policy Considerations

1.20.1 Business Continuity/Resilience

1.20.2 Community

1.21 Summary of Recommendations

1.21.1 Cabinet is **RECOMMENDED** to:

1) Endorse the recommendation that the budget for Borough Christmas Lighting be capped at £40,000.

2) Endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards other than item SSE 19/25 which was endorsed at the meeting on 6 January.

3) Update the Capital Plan as set out in paragraph 1.6.15 and recommend that Council adopt the Capital Plan accordingly.

4) Endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 8 January and the Overview and Scrutiny Committee on 15 January and recommend to Council it be adopted.

5) Endorse the prudential indicators listed in paragraphs 1.7.7 and 1.7.12 and recommend to Council that they be adopted.

6) Note that for the financial year 2020/21 our *annual minimum revenue provision* as set out at paragraph 1.7.15 is *nil* subject to the comment at paragraph 1.7.11.

7) Endorse subject to review each year that the maximum 'annual capital allowance' be increased from £200,000 to £250,000.

8) Endorse that a Budget Stabilisation reserve be established in the sum of £3,500,000 to manage risk, assist in meeting future savings and transformation contributions and/or fund in full or in part an appropriate commercial investment opportunity as detailed at paragraph 1.9.10.

9) Note and endorse the updated MTFS **[Annex 11a]**.

10) Give guidance to Full Council as to the best way forward in updating the MTFS for the next ten-year period, and setting the council tax for 2020/21.

11) Note and endorse the updated STS **[Annex 11c]** including the proposed scale and timing of each of the required savings and transformation contributions set out at paragraph 1.10.6.

12) Endorse the special expenses calculated in accordance with the Special Expenses Scheme and set out at **[Annex 14b]**.

13) Note and endorse the Statement **[Annex 17a]** provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves.

14) Members are **RECOMMENDED** to note the requirements of the CIPFA FM Code and to demonstrate compliance by way of a self-assessment to be reported to a future meeting of the Finance, Innovation and Property Advisory Board; and the outcome of the review of the CIPFA Financial Resilience Index.

Background papers:

Nil

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