**TONBRIDGE & MALLING BOROUGH COUNCIL**

**CABINET**

**14 October 2020**

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

**Part 1- Public**

**Executive Non Key Decisions**

## 1 UPDATE OF THE MEDIUM TERM FINANCIAL STRATEGY, SAVINGS & TRANSFORMATION STRATEGY AND BUSINESS RATES POOL

**This report provides Members with an update to the Medium Term Financial Strategy and also the Savings and Transformation Strategy which sits alongside it. In addition, the report considers the Council's position regarding business rate pooling for 2021/22, and recommends that for 2021/22 the Council should not be part of the formal business rates pool having regard to the prevailing economic climate and budget risks.**

### 1.1 Introduction

1.1.1 At its meeting on 30 June 2020, I reported to Members with a best 'update' of the Medium Term Financial Strategy taking into account the significant impact of the pandemic. Members will appreciate that the information provided was on a 'best guess' basis and that things could change.

1.1.2 I further advised that Management Team would be considering how the Savings and Transformation Strategy should be updated in response, and this would be brought back to Cabinet in the Autumn. This is addressed further in the report following discussion with Management Team colleagues.

1.1.3 Finally, in assessing the prevailing economic climate and budget risks as part of this overall update, I have also been evaluating, along with my Kent finance colleagues, whether or not the Council should continue to be in an official business rates pool (certainly for 2021/22). Whilst that decision is not solely in TMBC's hands as it is possible that other partners may choose not to invite TMBC to take part having regard to the wider Kent picture, I felt that Cabinet would wish to consider this 'first hand'. To assist with the evaluation, I commissioned a piece of work from an external specialist specifically in relation to TMBC, and I shall come back to that later in the report.

## 1.2 Medium Term Financial Strategy

1.2.1 The 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.

1.2.2 **Members are referred to my report of 30 June for background to this update, and to avoid the need for repetition**. However, one of the key objectives of the Strategy is to retain a minimum of £3.0m in the General Revenue Reserve by the end of the strategy period. In June, Members endorsed the view that if there has ever been a lesson to learn, it is that retaining an appropriate level of reserve balances for emergency situations is essential. With that in mind, Members agreed that the Council should not allow the General Revenue Reserve to drop below £2m in any one year.

1.2.3 In June, I advised that based on the information we had at that time, we anticipated that there would be a funding gap of circa £600,000 based on the 'mid-range' scenario. This compared to a gap of circa £320,000 when Members set the budget in February. In addition, of course, I also reported that a significant portion of the Council's reserves would need to be utilised, starting with the Budget Stabilisation Reserve of £3.5m (which was only set up this year) together with other earmarked reserves. This remains the case, albeit the figures have moved due to, amongst other things, further announcements on funding as set out below. The projected unplanned call on reserves over the next three years reported to the Finance, Innovation & Property Advisory Board (FIPAB) on 16 September was circa £6.8m and the funding gap circa £750,000 (but recognising this would undoubtedly change many times over the coming weeks and months).

1.2.4 Indeed, much has moved on since the Cabinet met in June with 'national' lockdown easing and businesses and facilities re-opening, albeit with many restrictions in place, some of which coming into effect following the Prime Minister's announcement on 22 September. For the purposes of this paper, I shall continue to advise Members on the basis of a 'mid-range' scenario as set out in my June report.

1.2.5 In June, I advised that TMBC had received in total grant funding of £1,356,890 for COVID; subsequently a further tranche of funding was received of £192,874 making a new grand total of £1,549,764. Local authorities have lobbied government for additional support specifically to address fees and charges losses, also in respect of support for leisure operators and council tax and business rates losses.

1.2.6 In respect of the first of these, government has designed a model to compensate local authorities for foregone income in relation to fees and charges (excluding commercial income). The draft guidance states that the income loss scheme would compensate for '*irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services'*, in the financial year

2020/21. The scheme involves a 5% deductible rate, whereby authorities will absorb losses up to 5% of their planned 2020/21 sales, fees and charges income; with government compensating them for 75p in every pound of relevant loss thereafter. For the purposes of financial planning and as advised to Members of the FIPAB on 16 September, we have assumed a compensation sum of £1m for the year 2020/21. Members should note that we are required to submit four-monthly claims in this regard, and that figure could therefore change.

1.2.7 With regard to leisure operators, the local government sector has not yet been successful in achieving a specific funding package, but lobbying continues. Members are aware that a budget of £1m was established to support TMLT in 2020/21 with a broad expectation that the "breakdown" of this sum would be roughly £600,000 for the full closure period; and £400,000 as a management fee variation for the remainder of 20/21 to reflect the additional costs and reductions in income brought about by the social distancing/Covid-19 secure requirements. As mentioned previously, to preserve the integrity of the Council's facilities and to ensure that valued services can be opened up to the public in due course, officers from the Council and TMLT continue to work together on an 'open book' basis ensuring that costs are being mitigated wherever possible. Further detail on this will be reported to the Communities and Housing Advisory Board in November.

1.2.8 The next Spending Review will agree what support councils need to help them meet the pressures of income loss from council tax and business rates.

1.2.9 As previously advised at paragraph 1.2.3, the 'funding gap' within the MTFS changes almost weekly when we take on board any new financial matters that have come to light and at the meeting of the FIPAB on 16 September, I reported that the funding gap had moved to circa £750,000.

1.2.10 The latest iteration to be reported to Cabinet through this agenda is that the **projected funding gap is now circa £875,000**. This takes on board recommendations made to the General Purposes Committee on 6 October which of course at the time of writing have not been deliberated. One of the key service objectives we have been moving forward with is the delivery of digitisation in line with the approved Digital Strategy. Digitisation should in itself deliver efficiencies, and therefore the need and ability to deliver efficiency savings is reflected in the "In Service Efficiencies" theme updated later in this report.

1.2.11 **At the meeting of Cabinet on 30 June, I set out a list of issues/assumptions that had been included within the MTFS and which still needed to be 'delivered' following 'in principle' decisions by Members. As a reminder, these include things such as sale of assets, car parking increases and introduction of new charges, scaling down of office accommodation, incremental increases in garden waste charges and transfer or closure of public conveniences. It remains the case that these initiatives**

**totalling in excess of £500,000 still need to be delivered and Members are reminded that if, for whatever reason, one or more of the items on the list cannot be delivered in value or relative timing, something else would need to take its place in order to maintain the integrity of the MTFS. Adding together these commitments/decisions already made to the 'new' savings target of £875,000 (see paragraph 1.2.10), gives a rather daunting figure of £1.375M which has to be found and delivered within the next 4 years**.

1.2.12 At the 30 June meeting of Cabinet, Members agreed that rather than waiting to understand what type of 'scenario' we were in, savings targets of £100,000 by April 2021 and April 2022 should be set to 'start the ball rolling' whilst we gained more 'experience' from the pandemic and its likely impact. The latest iteration as mentioned at paragraph 1.2.10, requires a further tranche of savings of £675,000 to be in place by April 2024. It is worth reiterating that this is predicated on a 'mid-range' scenario (which I defined as a slower recovery but with no major second 'spike' and the economic impacts that might ensue), so therefore if there is any change in direction nationally we will need to revisit the forecast yet again and update the targets.

1.2.13 As well as setting 'initial' savings targets that need to be delivered fairly quickly and become permanent reductions to our base budget, Cabinet also set an in year "essential spend only" target of £500,000 in relation to 2020/21.

1.2.14 This target of £500,000 is being managed by Management Team and I am pleased to say that good progress is being made. On the assumption the potential savings agreed so far with Services realise the anticipated saving a sum of circa £350,000 has been identified to date giving good reason to believe the target will be met as we move through the forthcoming budget setting process.

1.2.15 The potential savings agreed so far with Services to meet the 'essential spend only' target have been reviewed to identify those that are also ongoing and as such contribute to the savings target of £100,000 to be achieved by April 2021. A sum of circa £46,000 has been identified to date and further work will continue throughout the Estimates cycle to identify the balance.

1.2.16 Areas of spend identified to date in respect of both 'essential spend only' and ongoing savings targets are given in the table below:

| Description | Essential Spend Only £ | Ongoing Savings # £ |
|---|---|---|
| CCTV Monitoring | 25,000 | 15,000 |
| Community Development Grants | 7,500 | 0 |
| Council Offices Utilities | 32,000 | 0 |
| Dog Warden | 5,000 | 5,000 |
| Election Canvassing | 20,000 | 20,000 |
| Kent Public Services Network | 13,800 | 0 |
| Kent Resilience Forum | 10,125 | 0 |
| Leisure Events | 8,150 | 0 |
| Members Allowances & Expenses | 11,500 | 0 |
| Parking Ticket Refunds | 80,000 | 0 |
| Retirement Allowances | 17,000 | 0 |
| Staff Travel Allowances | 7,500 | 0 |
| Street Scene Abatement Initiatives | 10,000 | 0 |
| Tourism & Promotion | 15,500 | 0 |
| Training | 30,000 | 0 |
| Waste Publicity & Promotion | 10,000 | 0 |
| Youth & Play Development | 16,400 | 0 |
| Other Items | 33,125 | 5,950 |
| **Total** | **352,600** | **45,950** |

# work will continue through the Estimates cycle to identify the balance required

1.2.17 Of course, the work we have done in updating the MTFS thus far is based on assumptions about future government funding streams which are presently 'in limbo'. As Cabinet is well aware, the future Spending Review, Fair Funding Review and Business Rates Reforms brings further uncertainty in addition to the adverse impact of the Covid-19 pandemic.

1.2.18 The government regularly consults local government in respect of the forthcoming Comprehensive Spending Review. The review sets Government departments' resource budgets for the years 2021/22 to 2023/24. The Council joins with others in Kent to submit feedback to government, and on this occasion has submitted a common Kent-wide document populated with some specific TMBC case studies by the deadline of 24 September. The submission, approved in liaison with the Leader and Cabinet Member for Finance, Innovation and Property, is attached at

**[Annex 1]** for information. In responding, the opportunity was taken to seek continued financial support for Covid-19 which will extend beyond 2020/21 and also to encourage government to rescind or at least loosen the council tax referendum principles.

1.2.19 We await further information regarding all of these matters which will in turn have an impact on our MTFS. In the meantime, all we can do is prepare to deliver savings based on information and projections we have presently.

## 1.3 Savings and Transformation Strategy

1.3.1 Turning now to the Savings and Transformation Strategy (STS) which, as Members are aware, 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.

1.3.2 The STS was last approved by Members in February 2020 as part of the budget setting process for 2020/21. Clearly, in the light of the impact of the pandemic on the MTFS and our funding gap, this needs to be updated.

1.3.3 Without wanting to labour the point, not only will the Council need to deliver any new targets, but it will also need to ensure it delivers on the 'outstanding' decisions already built into the previous MTFS (value of circa £500,000) and which continue in these latest versions. As mentioned earlier these include: transfer and/or sale of public conveniences; car parking increases and introduction of new charges; scaling down of office accommodation; incremental increases in garden waste charges; and timely sales of River Walk and River Lawn sites.

1.3.4 Management Team has reviewed the STS in light of the latest projections. An updated version of the STS is attached at **[Annex 2]** for Cabinet to consider and approve. Members should note this includes the need to deliver a greater level of 'In-Service Efficiencies' as a result of digital innovation (see paragraph 1.2.10).

1.3.5 These are ***extremely*** challenging times and it has never been more important than to now focus firmly on the delivery of the necessary savings.

## 1.4 Business Rates Pool

1.4.1 Cabinet is aware that the Council is a member of the Kent Business Rates Pool in 2020/21, and previously was a member of the "one-off" Business Rates Pilot.

1.4.2 The rationale behind pooling is that pool members are able to retain a greater proportion of business rates income above baseline; but on the flip side risk of business rates income reducing is borne by the pool members. The pool has

always looked holistically across Kent with a view to bringing more funding into the county as a whole.

1.4.3 Following the collapse of Aylesford Newsprint back in 2015, TMBC has sadly not been in a position of capitalising significantly on business rates growth. As Members well know, there has been significant business growth in our area, but this has been masked by the failure of Aylesford Newsprint.

1.4.4 That said, we have enjoyed some additional return from pooling (and the pilot), including the ability to agree some small scale growth fund projects with the County Council. Other councils in the pool have enjoyed greater 'gains' given that they have not suffered the collapse of such a significant ratepayer as TMBC did.

1.4.5 Members may recall that TMBC joined the pool from 2015/16, but due to the collapse of Aylesford Newsprint as mentioned above, fell into a safety net for 2015/16 and 2016/17 meaning that pool has to cover losses beyond the threshold. Clearly at that time there was no opportunity for 'growth fund' monies, let alone 'retention' reward.

1.4.6 In 2017/18, TMBC rose just above baseline and this opened up some marginal gains for the Council directly in terms of firstly 'TMBC Retention'; and also in partnership with KCC in terms of funds for economic growth:-

Business Rates Pool

| | TMBC Retention £000 | Growth (with KCC) £000 |
|---|---|---|
| 2017/18 | 61 | 61 |
| 2018/19 | 152 | 152 |
| 2019/20 | 131 | 131 |
| Total | 344 | 344 |

1.4.7 In addition during 2018/19 only, TMBC was part of a one-off pilot which saw additional gains for TMBC directly and also as part of the West Kent Cluster (see below). Sadly, although bidding was undertaken to be a pilot again in 2019/20, Kent was not re-selected.

Business Rates Pilot

| | TMBC Sustainability £000 | Growth (West Kent Cluster) £000 |
|---|---|---|
| 2018/19 | 1,000 | 567 |

1.4.8 As mentioned other Kent councils have seen far greater gains as they sit much higher above their respective baselines.

1.4.9 The pandemic and the economic upheaval it has brought puts into question whether TMBC should continue to be in the official Kent-wide pool for 2021/22. This is looking at it from the perspective of risk to TMBC, but also in terms of Kent as a whole.

1.4.10 Kent Finance Officers have undertaken some work to establish the best way forward for 2021/22 to maximise the opportunities for Kent as a whole. To maximise levy and tariff positions, not all councils can be in the official pool for government purposes. Presently, Sevenoaks and Dover are outside the official (government) pool, but are within what we term a 'shadow pool' within Kent so that those authorities can also derive some benefit should their growth in income be above baseline.

1.4.11 It will come as no surprise to Members that given our business rates position which is hovering just above baseline, it is not in the interests of Kent as a whole for TMBC to be in the official pool that is registered with government. However TMBC could be in a 'shadow pool'.

1.4.12 I commissioned some work from LG Futures who specialise in this area of work and the technical analysis and advice received supports my, and my officers', view that, on a risk basis, TMBC should exit the official pool at the end of 2020/21. The report is very technical and therefore is not appended, but can be made available to any Member who wishes to view it.

1.4.13 Given our financial position in terms of business rates income which is marginally above baseline, in these extremely uncertain times it will not take much for TMBC to fall into safety net. In an official pool, other members of the pool have to bear the financial risk that ensues, netting down any returns they receive and therefore can be spent in Kent as a whole. Whilst I suspect this is unlikely, if other pool members see such a fall in their receipts due to the economic impact of COVID that they are unable to bear that financial risk, TMBC would have to find those missing funds from its own reserves. Whilst perhaps unlikely, it is nevertheless a risk and in these extremely uncertain times is a risk I believe we should avoid.

1.4.14 As Members know, those authorities not in a pool have the fall back of the government bearing the brunt of that risk beyond a threshold (which in our case is circa £170,000). Therefore for the avoidance of doubt, if TMBC were not in a pool in 2021/22 and receipts fell below safety net, the government would compensate for any additional loss.

1.4.15 Finance colleagues in Kent suggest that those districts not admitted to the pool in 2021/22 would be part of a 'shadow pool' and every effort would be made to ensure growth is rewarded (if this is possible). I have also made it clear to my colleagues that, all other things being equal, although we only expect to be on or around baseline in 2021/22, with economic developments taking place within the borough over the next couple of years, we might expect to be in a very different position in 2022/23. Kent colleagues have agreed that we would look to review

the composition of the pool each year (assuming pooling survives in the various reviews that are forthcoming) to ensure we get the best fit and best return for Kent as a whole.

1.4.16 The pooling submission has to be made to government by 23 October. My colleagues are preparing the draft submission on the basis that TMBC is not part of the pool.

1.4.17 Taking all this into account, I recommend that TMBC does not form part of the official Kent pool in 2021/22.

**1.5 Legal Implications**

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 veto the rise.

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

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

**1.6 Financial and Value for Money Considerations**

1.6.1 The scale of the financial challenge irrespective of the scenario is stark and, dependent on the scenario, places financial sustainability of TMBC at increased risk. In total over the next 4 years a sum of approaching £1.4m will need to be delivered in savings or transformation contributions. Some of this sum (in excess of £500,000) has already been built into the MTFS as outlined at paragraph 1.2.11 given that it has already been considered by Members; but the remainder still needs to be identified.

1.6.2 The future Spending Review, Fair Funding Review and Business Rates Reforms brings further uncertainty in addition to the adverse impact of the Covid-19 pandemic. How TMBC will fair, together with the current economic conditions have the potential to place further pressure on the Council's finances.

1.6.3 The Council maintains a prudent level of reserves to provide a safety net for unforeseen or other circumstances. The Robustness of Estimates and Adequacy of Reserves statement that the Council's Chief Financial Officer (i.e. myself as Director of Finance & Transformation) is required to produce under the local Government Finance Act 2003 to support Members in considering the Budget Setting report, lists examples of why the Council needs to retain a minimum level of reserves. Examples include: Emergencies; Economic and world recession; Interest Rate volatility; Income volatility; Closure of major trading area, e.g. leisure

centre for uninsured works; and Government Legislation. Rather than one or even two of these examples occurring, we have the situation of all of these examples impacting at the same time.

1.6.4 The Council has resolved to hold a minimum level of general revenue reserve of £3 million in order to provide for a host of potential financial and operational risks. At the start of 2020/21, the general revenue reserve balance was circa £6.6m and together with the budget stabilisation reserve giving some headroom to deal with issues arising without more immediate 'draconian' measures.

**1.7 Risk Assessment**

1.7.1 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool the Strategy needs to be reviewed and updated at least annually and in the current climate regularly reviewed by Management Team.

1.7.2 We will not know the extent of the adverse financial impact as a result of the Covid-19 pandemic for some time, but in all likelihood our reserve balances will be very much reduced from that assumed in February 2020; and as a result, in turn, have an adverse impact on the scale and timing of the savings and transformation contributions required. The scale of the financial challenge is such that financial sustainability at risk.

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

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

1.7.5 The Cabinet instigated an essential spend only policy for the financial year 2020/21 in order to contain as far as possible budget growth as a result of the pandemic. The forecasts suggest that this, together with the balance in the general revenue reserve, <u>should</u> enable the Council to respond to, and recover from, the impacts of the pandemic provided of course any resulting (and potentially significant) savings targets are delivered. This is nevertheless a 'tall ask' and reserve balances will be significantly depleted with little room for manoeuvre. The Strategic risks '*Financial position/budget deficit*' and '*Corporate Strategy and Savings and Transformation Strategy*' were escalated to RED risk on the Strategic Risk Register and presently remain there until we have a more settled position.

1.7.6 Much debate has been made of the potential and (perhaps necessity in some cases) for local authorities to issue s114 notices (under the s114 (3) of the Local Government Finance Act 1988). For Members' information this says that the

Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him/her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure. As Cabinet will have gathered, due to careful and prudent husbandry of resources in the past, I do not believe that TMBC is yet in this position. **However, it is imperative that we carefully monitor and contain expenditure and continuously update our forecasts to ensure that we remain on track**. This will of course include reflecting in our forecasting the outcome of the Fair Funding Review and Business Rates Reforms which is as yet an unknown quantity.

**1.8 Equality Impact Assessment**

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

**1.9 Policy Considerations**

1.9.1 Business Continuity/Resilience

1.9.2 Community

1.9.3 Healthy Lifestyles

1.9.4 Health and Safety

**1.10 Recommendations**

1.10.1 Cabinet are **RECOMMENDED** to:

1) Note the latest forecast of the Medium Term Financial Strategy and the funding gap of £875,000 as set out in paragraph 1.2.10.

2) Note the need to deliver the savings/transformation contributions already included in the MTFS as set out in paragraph 1.2.11.

3) Note the progress being made towards the “Essential Spend Only” target of £500,000 in relation to 2020/21, and the first ongoing savings target of £100,000 as set out in the table at paragraph 1.2.16.

4) Note the submission made in relation to the Comprehensive Spending Review **[Annex 1]** in liaison with the Leader and Cabinet Member for Finance, Innovation and Property (paragraph 1.2.18).

5) Consider and endorse the updated version of the Savings and Transformation Strategy **[Annex 2]** prepared by Management Team.

6) Endorse the view that TMBC should not be part of the formal Kent Business Rates Pool in 2021/22 to be submitted to government by 23 October.

Background papers: contact: Sharon Shelton
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Report from LG Futures

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