

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

19 January 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 REVENUE ESTIMATES 2021/22

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 2021/22 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 2021/22. 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 11 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 11 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2021/22 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 23 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 2020/21 and the Estimates for 2021/22 (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 2021/22 Estimates show an increase over the 2020/21 Original Estimates of £247,532 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 and are currently:

- 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 £250,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.2.2 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.

1.2.3 The Council has for many years been working to address the significant financial challenge faced following the 2007 banking crisis and the subsequent

Government's budget deficit reduction programme which resulted in reductions in the financial support offered to local government. Over this period our MTFs has proved to be resilient allowing the financial pressures likely to confront us to be addressed in a measured and controlled way, but with ever increasing pressure was becoming progressively more difficult.

- 1.2.4 When setting the budget for 2020/21 in February 2020, projections at that time suggested that there was a funding gap between expenditure and income of circa £320,000. This 'gap' was translated into two savings and transformation contributions of £20,000 and £300,000 to be achieved by the start of the year 2021/22 and 2024/25 respectively.
- 1.2.5 Members will, however, be fully aware that progress made in addressing the funding gap has been seriously overshadowed by the Covid-19 pandemic, and measures taken in response. The pandemic has and continues to have a significant adverse impact on the Council's finances and, in turn, on the scale and timing of the savings and transformation contributions required to 'balance the books'.
- 1.2.6 A report to Cabinet earlier in the year suggested a projected funding gap of **£875,000** split into three savings tranches of £100,000, £100,000 and £675,000 to be achieved **by** April 2021, April 2022 and April 2024. Adding to this sum those initiatives already built into the MTFs totalling in excess of **£500,000** gave a rather daunting figure of **£1.375m** to be found and delivered within the next four years.
- 1.2.7 The MTFs will need to be updated and rolled forward as part of the 2021/22 budget setting process. Further information about this including the **latest projected funding gap** is discussed later in this report at paragraph 1.8.

1.3 Provisional Local Government Finance Settlement

Settlement Funding Assessment (Core Funding)

- 1.3.1 On 17 December 2020, 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 2021/22. The provisional figures are expected to be confirmed in January / February 2021.
- 1.3.2 Not unsurprisingly the Settlement Funding Assessment (SFA) is for one year only (2021/22) and the Fair Funding Review deferred a further year. Again prolonging the period of 'limbo' which does little to aid medium term financial planning. Furthermore, Business Rates Reforms and the proposed move to a 75% Business Rates Retention Scheme have also been deferred a further year.
- 1.3.3 Our provisional SFA for the year 2021/22 as shown in the table below is £2,301,752, the same as that received in 2020/21 with the Government again funding 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 2021/22 will be dependent** on the outcome of the expected multi-year settlement to follow and the Fair Funding Review.

New Homes Bonus

- 1.3.4 Last year legacy payments plus an allocation for the year 2020/21 was paid under the New Homes Bonus (NHB) scheme. This approach has again been adopted comprising legacy payments of £1,849,051 plus an allocation for the year 2021/22 of £360,767 giving a total sum awarded of £2,209,818. This represents a cash decrease of £1,165,245 or 34.5% when compared to the equivalent figure of £3,375,063 in 2020/21.
- 1.3.5 The future of NHB or a replacement remains the subject of discussion, but at the very least will not continue in its current form leaving one of two options. The scheme is withdrawn and not replaced or is replaced, but where the funding stream and sum awarded is much reduced (our working assumption).

Lower Tier Services Grant (LTSG)

- 1.3.6 This is a new (one-off) grant allocation in the sum of £665,485 to ensure no council sees a year on year reduction in core spending power as calculated by the government.

Government Grant Funding (SFA + NHB + LTSG)

- 1.3.7 Government grant funding for the year 2021/22 as shown in the table below is £5,177,055, a cash decrease of £499,760 or 8.8% when compared to the equivalent figure of £5,676,815 in 2020/21.

	2020/21 £	2021/22 £	Cash Increase/ (Decrease)	
			£	%
Local Share of Business Rates (baseline)	2,301,752	2,301,752	-	-
Tariff Adjustment ('negative RSG')				
Settlement Funding Assessment	2,301,752	2,301,752	-	-
New Homes Bonus	3,375,063	2,209,818	(1,165,245)	(34.5)
Lower Tier Services Grant	-	665,485	665,485	-
Government Grant Funding	5,676,815	5,177,055	(499,760)	(8.8)

- 1.3.8 In addition, the payment for the under indexing of the business rates multiplier is £119,931 in 2021/22 compared to £92,255 in 2020/21.

- 1.3.9 The provisional local government finance settlement 2021/22 is subject to consultation. The return date for responses to the consultation is 16 January 2021. The response when drafted to be agreed by the Cabinet Member for Finance, Innovation and Property prior to submission. The consultation paper can be found at the following link:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945484/Provisional Settlement 2021-22 Consultation Document.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945484/Provisional_Settlement_2021-22_Consultation_Document.pdf)

1.4 Kent Business Rates Pool

- 1.4.1 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. However, as reported to Cabinet in October, the pandemic and the consequent economic upheaval brought into question whether the Council should continue to be in the official Kent-wide pool for 2021/22.
- 1.4.2 Adopting a risk based approach and considering the wider Kent position the view of officers was that the Council should not be part of the formal Kent Business Rates Pool in 2021/22 and subsequently endorsed by Cabinet at the meeting in October.
- 1.4.3 Business Rates Reforms and the proposed move to a 75% Business Rates Retention Scheme have been deferred a further year.

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 2021/22, 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 11 February for endorsement by Council. With this in mind Members are advised that, other than loss of investment income, 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) and recurring capital expenditure. The annual contribution is expected to match the funding required for the replacement of existing assets and recurring capital expenditure in 2021/22.
- 1.6.4 There remains an annual capital allowance for all other capital expenditure not least in light of the current economic climate and challenging financial outlook. 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 £250,000 and it is proposed that the annual allowance continue to be set at that level.
- 1.6.5 It should be noted, based on current projections, that from 2027/28 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 capital investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return. Any 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) amongst other Reserves 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:

Covid-19 Pandemic

1.8.2 The one issue overshadowing everything else is the impact of Covid-19 on the Council's finances and the consequent increase in the funding gap.

1.8.3 We will not know the full extent of the impact on the Council's finances for some time. Much will depend on the extent and speed of the recovery, impact of current and further 'lockdown' measures, societal changes brought about by the response to the pandemic and financial support provided by central government.

1.8.4 The revised estimates suggest the net adverse impact in 2020/21 has not been as severe as had been assumed earlier in the year, albeit this can change at short notice. This can in part be attributed to increased government grant funding in various forms, e.g. income compensation scheme, sharing of business rates and council tax losses, national leisure recovery fund where an assessment/ notional allocation as to the grant funding to be received has had to be made. Furthermore, the measures introduced by the government to support businesses and jobs may have only deferred some of the adverse impact to a later date. As a result the sum of £3.5m is to be transferred to a budget stabilisation reserve as originally intended, albeit over the two-year period 2020/21 to 2021/22. To be used in the first instance to support the budget dependent on how things 'play out' over the coming year where some or all of this sum is found to be required.

1.8.5 It is also **important to note** that in arriving at the latest projected funding gap it is assumed that:

- sources of income will in large part return to pre Covid-19 levels over the next two years – the question is will income return to the levels and in the timescale assumed?
- the marked increase in homelessness caseload and the associated increased net cost will be pulled back to pre Covid-19 levels over the next four years – the question is will costs be pulled back to the extent and in the timescale assumed?

1.8.6 What is certain is we need to be prepared to take corrective action if and when required as the situation becomes clearer/unfolds.

Government Grant Funding (Settlement Funding Assessment + NHB)

- 1.8.7 **Funding beyond 2021/22 will be dependent** on the outcome of the expected multi-year settlement to follow and the Fair Funding Review. 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 £3.2m.
- 1.8.8 In the latest iteration of the MTFS it is assumed overall government grant funding will reduce from circa £4.4m in 2021/22 to £2.4m in 2023/24 uplifted for inflation year on year thereafter. A cash decrease of £2.0m or 45.5% over the period.
- 1.8.9 A hypothetical example of how the assumed overall government grant funding of £2.4m in 2023/24 might be made up is business rates baseline (£1.5m) business rates growth (£200,000) and NHB replacement (£700,000).

Business Rates Retention Scheme

- 1.8.10 Business Rates Reforms and the proposed move to an 'interim' 75% and an 'eventual' 100% Business Rates Retention Scheme.
- 1.8.11 Beyond 2021/22, however, the **question remains** as to what will our business rates baseline and baseline funding level be under a revamped 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

- 1.8.12 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.
- 1.8.13 For the year 2021/22, 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 2.3% increase in council tax.
- 1.8.14 For the purposes of preparing the budget papers and updating the MTFS an **increase of £5 in 2021/22** has been assumed and each year thereafter.

Funding Gap

- 1.8.15 As we know, the funding gap is not static and constantly changes in response to both internal and external factors.
- 1.8.16 It goes without saying that the Council's finances are under severe pressure where the latest projected funding gap stands at **£475,000**. Adding to this sum those initiatives already built into the MTFS totalling in excess of **£500,000** gives

an updated daunting figure of **£975,000** to be found and delivered within the next four years. **Not forgetting**, amongst other things, the assumptions highlighted at paragraph 1.8.5 which are in themselves challenging.

1.8.17 The initiatives already built into the MTFS include:

- Transfer of ownership and responsibility for public conveniences to the relevant town or parish council or sale if that not the case;
- Annual increase in car park charges from April 2021 and introduction of car parking charges in 2022 and 2023;
- Sale of River Walk Offices and River Lawn;
- Garden waste annual increases moving towards Kent average;
- Scaling down of office accommodation and associated costs to reflect increased home working by 2023.

1.8.18 The MTFS will continue to be updated as we move through the 2021/22 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 Management Team and endorsed by Cabinet imposed an 'Essential Spend Only' policy for the year 2020/21 and set a one-off savings target of £500,000 to be delivered as a result of the policy. A high level review of the 2020/21 revised estimates suggest the policy has delivered one-off savings of £547,000.

1.9.4 Cabinet in June also set an ongoing savings target of £100,000 to be delivered by April 2021. To date ongoing savings in the order of £132,000 have been identified. The movement in the savings target reported to Cabinet in October and the latest projected funding gap is detailed below.

	£	£
Savings Target – Cabinet October 2020		875,000
Ongoing Savings Identified in Year	(132,000)	
Disabled Facilities Grants	(71,000)	
Establishment Changes	(58,000)	
Garden Waste Charge	(53,000)	(314,000)
Sub-total		561,000
Other Factors Impacting on MTFS		
Recycling Performance Payment	100,000	
Investment Income	50,000	
Garden Waste Service Take-up	(30,000)	
Contractual and General Inflation	(76,000)	
Pay Inflation	(111,000)	
Other Factors	(19,000)	(86,000)
Latest Projected Funding Gap		475,000
Initiatives Already Built into the MTFS		500,000
Total		975,000

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 6 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.

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

1.12 Financial and Value for Money Considerations

1.12.1 The scale of the financial challenge places financial sustainability at increased risk.

1.12.2 The expected multi-year settlement to follow, the Fair Funding Review and Business Rates Reforms brings further uncertainty in addition to the adverse impact of the Covid-19 pandemic.

1.12.3 The 2021/22 provisional local government finance settlement is relatively positive for TMBC, which is welcome news. However, 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?

1.12.4 In addition, 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 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 pandemic has and continues to have a significant adverse impact on the Council’s finances and, in turn, on the scale and timing of the savings and

transformation contributions required to 'balance the books'. The scale of the financial challenge places financial sustainability at increased risk.

- 1.13.4 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.
- 1.13.5 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.
- 1.13.6 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 may also not be extended beyond the initial 8 year contract period with potential significant adverse budget implications.
- 1.13.7 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.
- 1.13.8 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

- 1.14.1 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.

1.15 Policy Considerations

- 1.15.1 Business Continuity/Resilience
- 1.15.2 Community

1.16 Recommendations

- 1.16.1 The Committee is asked to:
 - 1) 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 11 February.
 - 2) Recommend to Cabinet that the Savings and Transformation Strategy is updated to reflect the latest projected funding gap as part of the budget setting process.

Background papers:

Nil

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Sharon Shelton

Sharon Shelton

Director of Finance and Transformation