

TONBRIDGE & MALLING BOROUGH COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

18 January 2022

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 REVENUE ESTIMATES 2022/23

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 2022/23 within the context of the Medium Term Financial Strategy and the Council's priorities. This year's budget setting process has again had to incorporate the difficult task of estimating the scale of the impact of the Covid-19 pandemic on the Council's finances both next year and over the medium term.

Dashboard/ Key Points

- Funding Gap, representing new savings that need to be identified and most importantly delivered, now projected at £2.15m. Of this sum £1.5m must be 'bridged' within the next 3 years to protect financial integrity. In addition, commitment of saving £200k in relation to release of office accommodation needs to be delivered. Budget position categorised as RED on the Strategic Risk Register.
- Provisional local government settlement 2022/23 giving TMBC a Settlement Funding Assessment (core funding) is for 1 year. Includes allocation of £1.19m for New Homes Bonus; also includes a one-off Services Grant including funding to cover national insurance increase. The overall funding DECREASE on 2021/22 is £401k (7.6%).
- Beyond 2022/23 there is no indication of future core funding, including any replacement (or not) for NHB making planning difficult.
- Council Tax referendum principles for district councils mean that council tax can only rise by up to 2% or £5, whichever is greater. By way of context, CPI inflation index for November is 5.1%.
- Three key service areas are impacting on the finances – namely Waste; Homelessness (Temporary Accommodation) and Local Plan.

1.1 Introduction

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget for 2022/23. 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 10 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 10 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2022/23 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 22 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 2021/22 and the Estimates for 2022/23 (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 2022/23 Estimates show an increase over the 2021/22 Original Estimates of £751,628 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 and **not to fall below £2.0m** at any time during the 10-year 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 £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 This time last year the projected funding gap was put at £475,000. This figure was increased to £2,150,000 earlier in the year and the reasons for what is a marked increase in the funding gap set out in a report to Cabinet on the 6 July followed by a further update on 12 October. Add to this those initiatives already built into the MTFS, **but not yet delivered**, of which only one now remains, the scaling back of office accommodation in the sum of £200,000 gave a daunting figure of **£2,350,000** to be found and delivered over the medium term.
- 1.2.4 The MTFS will need to be updated and rolled forward as part of the 2022/23 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 16 December 2021, the Secretary of State for the Department for Levelling Up, Housing and Communities, Michael Gove MP, made a statement to Parliament on the provisional local government finance settlement for 2022/23. The provisional figures are expected to be confirmed in January / February 2022.
- 1.3.2 Again, the Settlement Funding Assessment (SFA) is for one year only (2022/23) and the Fair Funding Review deferred to a future date. This further prolonging the

uncertainty over local government funding more generally and specifically how it shakes down to individual councils.

- 1.3.3 Our provisional SFA for the year 2022/23 as shown in the table below is £2,302,118, to all intents and purposes the same as that received in 2021/22. The Government again funding what has been referred to as 'Negative RSG'.
- 1.3.4 However, it is important to stress that **funding beyond 2022/23 will be dependent** on the outcome of the Fair Funding Review.

New Homes Bonus

- 1.3.5 Last year legacy payments plus an allocation for the year 2021/22 was paid under the New Homes Bonus (NHB) scheme. This approach has again been adopted comprising legacy payments of £828,579 plus an allocation for the year 2022/23 of £365,368 giving a total sum awarded of £1,193,947.
- 1.3.6 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. Firstly, the scheme is withdrawn and not replaced; or alternatively it is replaced, but where the funding stream and sum awarded is much reduced (our working assumption).

Under-indexing of the Business Rates Multiplier

- 1.3.7 The payment for the under-indexing of the business rates multiplier is £189,122.

Lower Tier Services Grant

- 1.3.8 This was introduced last year to ensure no council sees a year on year reduction in core spending power as calculated by the government. This approach has been adopted again this year. Our provisional allocation for the year 2022/23 as shown in the table below is £1,052,110.

2022-23 Services Grant

- 1.3.9 This is a new (one-off) un-ringfenced grant allocation in the sum of £158,677 to support all services delivered by councils, including funding to cover the increase in employer national insurance contributions.

Total Grant Funding

- 1.3.10 Total grant funding for the year 2022/23 as shown in the table is £4,895,974, a cash decrease of £401,012 or 7.6% when compared to that received in 2021/22.

	2021/22 £	2022/23 £	Cash Increase/ (Decrease)	
			£	%
Local Share of Business Rates (baseline)	2,301,752	2,302,118	366	-
Tariff Adjustment ('negative RSG')				
Settlement Funding Assessment	2,301,752	2,302,118	366	-
New Homes Bonus	2,209,818	1,193,947	(1,015,871)	(46.0)
Under-indexing of the Business Rates Multiplier	119,931	189,122	69,191	57.7
Lower Tier Services Grant	665,485	1,052,110	386,625	58.1
2022-23 Services Grant	-	158,677	158,677	-
Total Grant Funding	5,296,986	4,895,974	(401,012)	(7.6)

- 1.3.11 The provisional local government finance settlement 2022/23 is subject to consultation. The return date for responses to the consultation was 13 January 2022 and the response agreed by the Cabinet Member for Finance, Innovation and Property prior to submission. The consultation paper can be found at the following link:

<https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2022-to-2023-consultation/provisional-local-government-finance-settlement-2022-to-2023-consultation>

1.4 Kent Business Rates Pool

- 1.4.1 Adopting a risk based approach and considering the wider Kent position it was decided that the Council should not be part of the formal Kent Business Rates Pool from 2021/22 and to revisit the decision at a future date subject to the existence of business rates pools and its viability at that time.
- 1.4.2 Business Rates Reforms have been deferred and plans to allow councils to retain 75% of their business rates abandoned.

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 2022/23, a referendum will be triggered where council tax is increased by **2%, or more than 2% and more than £5**. Members will appreciate that this is well below the current level of inflation – CPI for November being 5.1%.
- 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 10 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 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.
- 1.6.4 There is also an annual contribution to the revenue reserve for capital schemes to match the funding required for the replacement of existing assets (vehicles, plant and equipment) and recurring capital expenditure. The contribution in 2022/23 is £908,000.
- 1.6.5 There remains an annual capital allowance for all other capital expenditure not least in light of the difficult 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.
- 1.6.6 It should be noted, based on current projections, that from 2028/29 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 capital 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.

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 full extent of the impact of the Covid-19 pandemic on the Council's finances continues to unwind. Much will depend on the extent and speed of the recovery, impact of any further 'lockdown' measures, societal changes brought about by the response to the pandemic and any further financial support provided by central government.
- 1.8.3 It is **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 high homeless caseload and consequent significant and escalating increased cost of temporary accommodation will be pulled back to pre Covid-19 levels over the medium term – the question is will costs be pulled back to the extent and in the timescale assumed? As reported to Cabinet on 12 October, Management Team in consultation with the Leader agreed to commission some consultancy support to help us identify how and if processes can be refined to minimise cost. That work has now been concluded and the findings, conclusions and recommendations the subject of consideration.

- On the basis that the waste contract will be re-let at the end of the first "break-point" (i.e. in March 2027), it has already been assumed that the specification will be 'pulled back' in order to mitigate, in part, the

anticipated significant increase in cost. **Therefore, an expectation of a reduced specification is already assumed within the MTFS as it stands.** If this were not assumed, the gap would be higher.

- 1.8.4 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 + LTSG)

- 1.8.5 **Funding beyond 2022/23 will be dependent** on the outcome of the Fair Funding Review, and what is to happen to NHB and the recently introduced lower tier services grant and the new one-off services grant moving forward. 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.
- 1.8.6 In the latest iteration of the MTFS it is assumed government grant funding will reduce from circa £4.8m in 2022/23 to £2.7m in 2025/26 before seeing a modest increase year on year thereafter. A cash decrease of £2.1m or 43.8%.
- 1.8.7 A hypothetical example of how the assumed overall government grant funding of £2.7m in 2025/26 might be made up is business rates retention scheme (£2.0m) NHB/ replacement (£600,000) and grant income (£100,000).

Business Rates Retention Scheme

- 1.8.8 Business Rates Reforms have been deferred and plans to allow councils to retain 75% of their business rates abandoned.
- 1.8.9 Beyond 2022/23, 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

- 1.8.10 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.
- 1.8.11 For the year 2022/23, 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. By way of context, CPI inflation level for November is 5.1%.
- 1.8.12 For the purposes of preparing the budget papers and updating the MTFS an **increase of £5 in 2022/23** has been assumed and each year thereafter.

Waste Services Contract

- 1.8.13 The Waste Services Contract if not extended beyond the initial 8 year contract period could see increased costs over that assumed. Where this was proved to be the case there is an expectation that the first ‘port of call’ would be to revisit the specification with the aim of bringing the cost down preferably within budget or as close to the budget as possible (see also paragraph 1.8.3).

Climate Change Agenda

- 1.8.14 Climate Change agenda related costs are not reflected in the MTFS other than a relatively small sum to meet one-off / time limited expenditure. As such one-off costs over the sum available and any ongoing costs would represent budget growth and, in turn, increase the funding gap.

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 at this stage in the budget process the latest projected funding gap stands at **£2,150,000**. Add to this those initiatives already built into the MTFS, **but not yet delivered**, of which only one now remains, the scaling back of office accommodation in the sum of £200,000 gives a daunting figure of **£2,350,000** to be found and delivered over the medium term. The difficult and challenging financial outlook demanding a **pressing and concerted** focus of attention. **Not forgetting**, amongst other things, the assumptions highlighted at paragraph 1.8.3 which are in themselves challenging.
- 1.8.17 The MTFS will continue to be updated as we move through the 2022/23 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 The Council set a savings target of £100,000 to be delivered by April 2022 and to date ongoing savings / increased income in the order of £329,000 have been identified, albeit other factors / decisions made giving a net figure of £144,000.
- 1.9.4 There are of course multiple factors that can take the savings target in either the right or wrong direction. A high level overview of the movement in the savings target when the budget was set in February 2021 and the latest projected funding gap of £2,350,000 is detailed below.

	£	£
Savings Target – Council February 2021		475,000
Northern Car Parks	95,000	
River Lawn	73,000	
Cabinet	17,000	
General IT Development Budget	(30,000)	
Savings Identified at Cabinet October 2021		(52,000)
Disabled Facilities Grants	(54,000)	
Cemetery Income	(60,000)	
Parking Income	(133,000)	(144,000)
Sub-total		331,000
Other Factors Impacting on MTFS		
Waste Services Contract	1,400,000	
Car Park Usage	300,000	
Waste Services Contract Inflation	220,000	
Temporary Accommodation	130,000	
Social Care Levy	100,000	
Recycling Performance Payment	30,000	
Pension Attrition Rate	(50,000)	
Planning Application Fee Income	(58,000)	
Investment Income	(75,000)	
Council Tax	(84,000)	
Government Grant	(130,000)	
Other Factors	36,000	1,819,000
Latest Projected Funding Gap		2,150,000
Initiatives Already Built into the MTFS		200,000
Total		2,350,000

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 12 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 uncertainty surrounding local government finances – the awaited outcome of the Fair Funding Review, the future of NHB and the recently introduced lower tier services grant and new one-off services grant moving forward, business rates reforms in addition to the adverse impact of the Covid-19 pandemic continuing to unwind makes financial planning that much more difficult.
- 1.12.3 The 2022/23 provisional local government finance settlement is relatively positive for TMBC, which is welcome news. However, this is a further standalone “holding year” and three key questions remain.
- Firstly, what will our business rates baseline and baseline funding level be 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?

- Thirdly, over what time period will the lower tier services grant be ‘in play’ and how much might we expect to receive year on year in that period and what is to happen to the new one-off services grant?

- 1.12.4 A further key question is, will the reductions in income and increased costs seen as a result of the pandemic return in large part to pre Covid-19 levels to the extent and in the timescale assumed?
- 1.12.5 In addition, the impact of current economic conditions on Council finances / financial assumptions in respect of inflation, interest rates, 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 continues to have a significant adverse impact on the Council’s finances and dependent on the extent and speed of the recovery further widen the funding gap.
- 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 Waste Services Contract if not extended beyond the initial 8 year contract period could see increased costs over that assumed. As mentioned at paragraph

1.8.3, however, it is important to note that forward planning already assumes a reduced specification.

- 1.13.7 The Inter Authority Agreement with KCC as part of the Waste Services Contract may not be extended beyond the initial 8 year contract period with potential significant adverse budget implications, albeit this is considered unlikely.
- 1.13.8 Members are reminded that there are factors not reflected in the MTFS, e.g. Climate Change agenda related costs other than a relatively small sum to meet one-off / time limited expenditure and the cost of borrowing for new capital plan schemes when and if required.
- 1.13.9 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.14 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 Budgetary and policy framework is relevant to all areas of the Council's business.

1.16 Recommendations

- 1.16.1 The Committee is asked to:

- 1) Consider the draft Revenue Estimates (**[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 10 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
Director of Finance and Transformation