

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

14 February 2023

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 2023/24

Further to the meeting of the 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 2023/24.

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.

Dashboard/ Key Points

- Funding Gap, representing new savings that need to be identified and delivered, now projected at £1.7m over the medium term. In addition, commitment of saving £200,000 in relation to release of office accommodation needs to be delivered.
- Budget position categorised as RED on the Strategic Risk Register.
- Provisional local government finance settlement 2023/24 giving TMBC a Settlement Funding Assessment (core funding) is for 1 year. Includes allocation of £0.6m for New Homes Bonus; also includes a Funding Guarantee of £1.8m. The overall funding INCREASE on 2022/23 is £0.5m. Based on a government policy statement, 2024/25 is expected to follow a similar pattern; but will be confirmed next year. Beyond 2024/25 there is no indication of future core funding, including any replacement (or not) for NHB making financial planning difficult.
- Referendums principles mean that council tax can only rise by greater of 3% or £5. CPI for December 10.1%. Recommended 3% increase in TMBC element of council tax bill giving a council tax at Band D for 2023/24 of £231.23; a cash increase of £6.73 per annum.
- Two capital schemes to be added to Capital Plan in 2023/24.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 21 February, Members will determine both the Budget and the level of council tax for 2023/24. The detailed Estimates for 2023/24 prepared by your Officers in liaison with the Cabinet have been carefully considered by the Overview and Scrutiny Committee earlier in the cycle. 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 2023/24; 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 2023/24 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. Ultimately, Members working with senior officers have a duty to ensure the Council's long term financial position is sustainable, and that 'short term' decisions do not jeopardise that longer term sustainability.
- 1.1.3 In addition, this year's budget setting process has had to incorporate the difficult task of estimating the extent and speed of the recovery of the Council's income and expenditure impacted by the Covid-19 pandemic and the impact of the prevailing economic conditions on the Council's finances.
- 1.1.4 This time last year the projected funding gap was put at £2,150,000 with an initial tranche of savings in the sum of £350,000 to be delivered by April 2023. During the course of the current year, as will be noted from paragraph 1.10.3 later in this report, that target of £350,000 has been achieved.
- 1.1.5 The adverse global economic conditions, amongst other things, has inevitably added to the uncertainty in the scale of the funding gap over the past twelve months and, as advised in the report to Overview & Scrutiny Committee, the latest projected funding gap is £1,700,000. Members should also note that it is necessary to add to this figure the value of any initiatives already built into the MTFS, **but not yet delivered**. In this respect, the scaling back of office accommodation in the sum of £200,000 needs to be added in, giving a figure of **£1,900,000** to be found and delivered over the medium term. **The MTFS including the latest project funding gap is discussed in more detail later in this report.**
- 1.1.6 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 2023/24 and also assumed for the year 2024/25, a referendum will be triggered where council tax is increased by **more than 3% or £5, whichever is higher**.
- 1.1.7 This time last year the MTFS assumed a council tax increase of £5 representing a 2.2% increase in council tax. For the purposes of preparing the budget papers

and updating the MTFS an **increase of 3% in 2023/24 and 2024/25** has been assumed followed by the higher of 2% or £5 each year thereafter.

1.1.8 Attached at **[Annex 1]** for Members' information is a copy of the Referendums Principles setting out the level of council tax increase for 2023/24 above which the local authority would be required to seek approval of their electorate via a local referendum.

1.1.9 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 2023/24
- 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

1.1.10 Recommendations are made, where appropriate, within each section of the report and **highlighted in blue**. In addition, for completeness, all recommendations are summarised at Section 1.21 of the report.

1.2 Local Government Finance Settlement

Settlement Funding Assessment (Core Funding)

- 1.2.1 On 19 December 2022, 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 2023/24. The consultation in respect of the provisional settlement closed on 16 January 2023 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 settlement. The 2023/24 provisional local government finance settlement represents a holding position until the next Parliament, aiming at stability.
- 1.2.2 Again, the Settlement Funding Assessment (SFA) is for one year only (2023/24) and the Fair Funding Review deferred to a future date. This further prolongs the uncertainty over local government funding more generally and specifically how it shakes down to individual councils.
- 1.2.3 Our provisional SFA for the year 2023/24 as shown in the table below is £2,525,211, an uplift of 9.7% compared to the sum received in 2022/23. The Government is again funding what has been referred to as 'Negative RSG'.
- 1.2.4 However, it is important to stress that **funding in what is assumed the near future will be dependent on the outcome of the yet to be concluded Fair Funding Review.**

New Homes Bonus

- 1.2.5 No further legacy payments are due under the New Homes Bonus (NHB) scheme giving an allocation for the year 2023/24 only which in our case is £610,499.
- 1.2.6 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 and equating to a one-year only scheme).

Under-indexing of the Business Rates Multiplier

- 1.2.7 The payment for the under-indexing of the business rates multiplier is £406,754.

Services Grant

- 1.2.8 This was introduced last year albeit it was said as a one-off un-ringfenced grant allocation to support all services delivered by councils. Our provisional allocation for the year 2023/24 as shown in the table below is £89,412.

Funding Guarantee

1.2.9 The Lower Tier Services Grant and a proportion of the expired New Homes Bonus legacy payments have been repurposed to create a one-off funding guarantee to ensure that all authorities will see at least a 3% increase in their core spending power before any decision they make about council tax levels. The increase in core spending power as calculated by the government for TMBC is 5.1%.

1.2.10 It has been assumed from what has been said that the one-off funding guarantee applies to this Spending Review period, i.e. the years 2023/24 and 2024/25. Our provisional allocation for the year 2023/24 as shown in the table below is £1,765,688.

Total Grant Funding

1.2.11 Total grant funding for the year 2023/24 as shown in the table below is £5,397,564, a cash increase of £501,590 or 10.2% when compared to that received in 2022/23. The **increase after taking account of grants rolled into the local government finance settlement is 7.2%**.

	2022/23	2023/24	Cash Increase/ (Decrease)	
	£	£	£	%
Local Share of Business Rates (baseline)	2,302,118	2,525,211	223,093	9.7
Tariff Adjustment ('negative RSG')				
Settlement Funding Assessment	2,302,118	2,525,211	223,093	9.7
New Homes Bonus	1,193,947	610,499	(583,448)	(48.9)
Under-indexing of the Business Rates Multiplier	235,249	406,754	171,505	72.9
Lower Tier Services Grant	1,005,983	-	(1,005,983)	(100.0)
Services Grant	158,677	89,412	(69,265)	(43.7)
Funding Guarantee	-	1,765,688	1,765,688	-
Total Grant Funding	4,895,974	5,397,564	501,590	10.2

1.2.12 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 2]**. It should be noted, however, that Tonbridge & Malling Borough Council received a higher level of Funding Guarantee than some of the Kent Districts.

1.3 Kent Business Rates Pool

1.3.1 Adopting a risk based approach and considering the wider Kent position, it was decided previously 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.

- 1.3.2 The Panattoni development on the former Aylesford Newsprint site in particular led the Council to ask the current members of the Pool to consider a request to re-join the Kent Business Rates Pool from April 2023 which was subsequently approved by Pool members and the Secretary of State.
- 1.3.3 For budgeting purposes business rates income is expected to exceed the business rates baseline in 2023/24. As a member of the Kent Business Rates Pool for business rates retention scheme purposes, we are estimating that the increased business rates income to be retained will be circa £566,000, together with a growth fund element in the sum of circa £106,000 to be spent in liaison with Kent County Council.
- 1.3.4 Reforms to the Business Rates Retention Scheme / Business Rates have been deferred.

1.4 Revenue Estimates 2023/24

- 1.4.1 As mentioned in the Foreword, the draft Revenue Estimates for 2023/24 were presented to the Overview and Scrutiny Committee earlier in the cycle. The role 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 the meeting, the Revenue Estimates as presented were endorsed.
- 1.4.2 Adjustments made to the Revenue Estimates following the meeting of the Overview and Scrutiny Committee are detailed in the table below.

	Revised Estimate 2022/23 £	Original Estimate 2023/24 £
Summary Total reported to Overview and Scrutiny Committee on 26 January 2023	6,678,500	15,075,650
Tree Management – note 1	50,000	
Agile Project – note 2		130,000
Household Recycling and Waste Service – note 3	77,000	150,000
Budget Stabilisation Reserve	(77,000)	(150,000)
Current Summary Total	6,728,500	15,205,650

Notes:

1. As per Urgent Decision Notice D230006URG issued 20/01/23
2. See private report of Management Team elsewhere on this agenda
3. See joint report of DSSLTS and Cabinet Member for Technical & Waste Services elsewhere on this agenda

1.4.3 Cabinet is accordingly **RECOMMENDED** to endorse the Revenue Estimates as presented to the Overview and Scrutiny Committee earlier in the cycle, together with the subsequent adjustments detailed above and recommend to Council that they be adopted.

1.5 Fees and Charges

1.5.1 Proposals in respect of fees and charges for the year 2023/24 considered and approved at the Cabinet meeting on 8 November 2022 have been reflected in the Budget, together with the resolution of the Licensing and Appeals Committee at its meeting on 29 November 2022 in respect of licensing fees.

1.6 Capital Plan

1.6.1 The outcome of the Capital Plan Review process was considered by the Overview and Scrutiny Committee on 26 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 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 2023/24 is £974,000.

1.6.7 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.

- 1.6.8 It should be noted, based on current projections, that from 2029/30 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.
- 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) amongst other Reserves could be used to fund in full or in part appropriate capital plan schemes.
- 1.6.10 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 (O&S 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, two schemes have been recommended both for Fast-Track evaluation. In addition, there are two schemes selected for evaluation in a previous Review that are yet to be evaluated / subject to further evaluation as follows: Tonbridge Racecourse Sportsground – Improvement Works Phase 3 and River Medway – Riverside Environmental Improvements, Tonbridge.
 - 4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]**. As explained in the O&S report and also the Annex, the scale of the Gibson East Refurbishment is such that it is to be seen as a standalone project outside of the capital plan review process and how it is proposed to be funded again set out in the O&S report and also the Annex.
 - 5) Cabinet be asked to endorse the Capital Strategy at Annex 4 (O&S agenda) for adoption by Council and publication on the Council's website.
- 1.6.11 Details of the evaluated schemes are summarised below.

Capital / revenue consequences of evaluated schemes			
	Capital Cost	Annual revenue / renewals cost	O&S Agenda Annex 3 Page
	£'000	£'000	
Corporate Services			
Gibson East Refurbishment	3,000		CP 31
De-carbonising the Council's Estate	225	11	CP 33
Total	3,225	11	

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

1.6.13 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]**.

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

- 1) Cabinet endorse the existing Capital Plan (List A) position at Annex 1 (O&S 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, two schemes have been recommended both 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 Overview and Scrutiny Committee on 26 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 Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible.
- 1.7.4 The requirements of both the Prudential Code and Treasury Management Code published by CIPFA have been taken into account and reflected as appropriate in the annual review and update of the Capital Strategy and the Treasury Management and Annual Investment Strategy 2023/24.
- 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.
- 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 2023/24.
- 1.7.7 A summary of the indicators appears in the table below.

Treasury Management Prudential Indicators					
Prudential Indicator	2021/22 Actual	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£'000	£'000	£'000	£'000	£'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	22,131 40.0%	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	9,250 16.7%	60% of funds			
The maturity structure for new fixed rate borrowing during 2023/24	Upper Limit		Lower Limit		
Under 12 months	100%		NIL		
Over 12 months	NIL		NIL		

A new Liability Benchmark indicator has been introduced in 2023/24. Whilst consideration has been given to the Liability Benchmark, this Council is debt free and therefore there is no debt maturity profile to report. The forecast net investment requirement for the next three years (excluding the liquidity allowance) is: 2023/24 £34.3m, 2024/25 £25.6m and 2025/26 £18.8m.

- 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.
- 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.
- 1.7.11 The other prudential indicators we are required 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%.					
2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
actual	estimated	estimated	estimated	estimated	estimated	estimated	estimated
-6.91%	-12.73%	-8.59%	-7.43%	-5.89%	-5.09%	-5.09%	-4.74%

2.	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] .					
2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
actual	estimated	estimated	estimated	estimated	estimated	estimated	estimated
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2,251	4,515	8,227	2,636	1,776	1,824	1,999	2,503

1.7.12 We, therefore, **RECOMMEND** that for the financial year 2023/24 the prudential indicators listed in paragraphs 1.7.7 including the new liability benchmark indicator and 1.7.11 be recommended to Council for adoption.

1.7.13 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.

1.7.14 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 2029/30.

1.7.15 Members are asked to **NOTE** that for the financial year 2023/24 our *annual minimum revenue provision* is nil subject to the comment at paragraph 1.6.8.

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 20 January 2023. **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 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 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 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.
- 1.9.4 Members working with senior officers have a duty to ensure the Council's long term financial position is sustainable, and that 'short term' decisions do not jeopardise that longer term sustainability.
- 1.9.5 The budget for 2023/24 is, naturally, the starting point for updating the MTFS. Referring to paragraph 1.4.2, Members will note that the Summary Total for the 2023/24 Estimates is £15,205,650 and is used in the budget projections in the Medium Term Financial Strategy at **[Annex 10a]**.
- 1.9.6 When updating the MTFS we need to take into account the following (not exclusive) factors:

Prevailing Global Economic Conditions

- 1.9.7 The impact of current economic conditions on the Council's 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.
- 1.9.8 As a result of the current adverse economic conditions including the high cost of energy the Tonbridge and Malling Leisure Trust will require financial support from the Council in 2022/23. That support is estimated to be in the order of £750,000. For financial planning purposes it has been assumed a similar level of support will be required in 2023/24 to be funded from the Budget Stabilisation Reserve.

Covid-19 Pandemic

- 1.9.9 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, and societal changes brought about by the response to the pandemic.
- 1.9.10 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 albeit the cost of living crisis could slow the speed of recovery – the question is will income return to the levels and in the timescale assumed?
 - The recent 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?
 - 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 ‘scaled back’ in order to mitigate, in part, the anticipated significant increase in cost.

- 1.9.11 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 + Other Grants)

- 1.9.12 **Funding in what is assumed the near future will be dependent** on the outcome of the yet to be concluded Fair Funding Review, and what is to happen to NHB and other grant income 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.

- 1.9.13 In the latest iteration of the MTFS it is assumed government grant funding and increased business rates income to be retained will reduce from circa £5.96m in 2023/24 to £3.11m in 2027/28 before seeing a modest increase year on year thereafter. A cash decrease of £2.85m or 47.8%.
- 1.9.14 A hypothetical example of how the assumed overall government grant funding and increased business rates income of £3.11m in 2027/28 might be made up is business rates retention scheme (£2.51m) NHB/ replacement (£600,000).

Business Rates Retention Scheme

- 1.9.15 Reforms to the Business Rates Retention Scheme / Business Rates have been deferred.
- 1.9.16 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?
- 1.9.17 For budgeting purposes business rates income is expected to exceed the business rates baseline in 2023/24. As a member of the Kent Business Rates Pool for business rates retention scheme purposes, we are estimating that the increased business rates income to be retained will be circa £566,000, together with a growth fund element in the sum of circa £106,000 to be spent in liaison with Kent County Council.

Council Tax Referendum Principles

- 1.9.18 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.
- 1.9.19 For the year 2023/24 and also assumed for the year 2024/25, a referendum will be triggered where council tax is increased by **more than 3% or £5, whichever is higher**. This time last year the MTFS assumed a council tax increase of £5 representing a 2.2% increase in council tax.
- 1.9.20 For the purposes of preparing the budget papers and updating the MTFS an **increase of 3% in 2023/24 and 2024/25** has been assumed followed by the higher of 2% or £5 each year thereafter.

Pension Fund Deficit

- 1.9.21 The pension fund deficit is forecast to be recovered within the 10-year period of this MTFS and in all significant respects is **why the projected funding gap is £1.7m and not in excess of £3.0m**. It should be noted that this does not mean a pension fund deficit will not reappear - as it could. This will be dependent on the future performance of the pension fund and in order to lessen the risk of that

occurring we are looking to establish a 'buffer'. What this would mean in practice is working towards a position where the pension fund is overfunded so that there is an element of headroom to manage the risk.

Waste Services Contract

- 1.9.22 The Waste Services Contract has a 'break-point' in 2027 and it has been assumed for financial planning purposes that one or both parties would not wish to extend the contract beyond the break-point. If not extended beyond the initial 8 year contract period, the likelihood is that we could see increased costs over those the Council is presently paying. 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 1.9.10).

Climate Change Agenda

- 1.9.23 Climate Change agenda related costs are not reflected in the MTFS. There is a relatively small, earmarked reserve to fund until expended both a revenue budget and specific projects / initiatives in support of the Climate Change Strategy. As such one-off costs over the sum available and any ongoing costs would represent unbudgeted spend / budget growth and, in turn, increase the funding gap.

Funding Gap

- 1.9.24 As we know, the funding gap is not static and constantly changes in response to both internal and external factors.
- 1.9.25 It goes without saying that the Council's finances remain under severe pressure where at this stage in the budget process the latest projected funding gap stands at **£1,700,000**. Add to this those initiatives already built into the MTFS, **but not yet delivered**, the scaling back of office accommodation in the sum of £200,000 gives a figure of **£1,900,000** to be found and delivered over the medium term.
- 1.9.26 The difficult and challenging financial outlook necessarily demands a **pressing and concerted** focus of attention. Alongside this, the assumptions highlighted at paragraph 1.9.10 in relation to the recovery from the Covid-19 pandemic are in themselves challenging. Accordingly, matters relating to the medium term finances have been recorded as RED on the Strategic Risk Register which is reported to the Audit Committee on a regular basis, in order to ensure that this is visible and highlighted as a priority for the Council.

- 1.9.27 **[Annex 10a]** 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 will need to be revisited and aligned with the latest projected funding gap.

Savings and Transformation Contributions

- 1.10.3 The Council set a savings target of £350,000 to be delivered by April 2023 and to date ongoing savings / increased income in the order of £355,000 have been identified, albeit other factors / decisions made giving a net figure of £285,000.

- 1.10.4 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 2022 and the latest projected funding gap of £1,900,000 is detailed below.

	£	£
Savings Target – Council February 2022		2,150,000
Bring Sites Recycling	42,000	
Planning Enforcement	25,000	
Sports Development & Youth Engagement	(30,000)	
Ring-Fenced Sums	(34,000)	
Fees & Charges	(50,000)	
Replacement of Uniform System	(50,000)	
Members Allowances	(60,000)	
Insurance	(60,000)	
Other (net)	(68,000)	(285,000)
Other Factors Impacting on MTFS		
Waste Services Contract Inflation	640,000	
Pay Award	340,000	
Price Inflation	310,000	
Waste Services Contract Retender	300,000	
IT Expenses	166,000	
Energy - Council Offices	100,000	
Tree Management	40,000	
Planning Application Income	(93,000)	
Garden Waste Income	(193,000)	
Council Tax Income	(222,000)	
Central Government Funding	(268,000)	
Pension Fund Deficit	(1,450,000)	
Other	165,000	(165,000)

Latest Projected Funding Gap		1,700,000
Initiatives Already Built into the MTFS		200,000
Total		1,900,000

1.10.5 As in previous iterations of the MTFS the latest projected 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 - £500,000 to be achieved by April 2024.
- 2) Tranche 2 - £600,000 to be achieved by April 2026.
- 3) Tranche 3 - £600,000 to be achieved by April 2028.

1.10.6 An updated copy of the STS, recommended by Management Team, including revised outline targets and timescales for each of the themes totalling £1,700,000 can be found at **[Annex 10b]**.

1.10.7 Breaking down the tranches in this way should, hopefully, allow time for the Fair Funding Review to be concluded and what is to happen to New Homes Bonus and other grant income to be decided in advance of Tranche 2 and, in turn, giving the opportunity to revisit the scale and timing of future tranches. **The focus of attention over the next 12 months must be to deliver the Tranche 1 savings target.**

1.10.8 Cabinet is **RECOMMENDED** to:

- 1) Note and endorse the updated MTFS **[Annex 10a]**.
- 2) Note and endorse the updated STS **[Annex 10b]** including the proposed scale and timing of each of the required savings and transformation contributions set out at paragraph 1.10.5.

1.10.9 Turning back to the specific budget year 2023/24. The budget for 2023/24 includes a contribution **to** the general revenue reserve of £1,356,800 and a Summary of the Revenue Estimates Booklet is attached at **[Annex 11]**.

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 Before we can finalise our calculations in respect of the tax requirements, we have to:

- Estimate the surplus / deficit on the collection fund for 2022/23 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 2022/23 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 2022/23 in respect of council tax is estimated to be £601,183. Our share, to be reflected in the 2023/24 Estimates is £85,040 [**Annex 12a**].
- The **surplus** on the collection fund for 2022/23 in respect of business rates is estimated to be £2,998,325. Our share, to be reflected in the 2023/24 Estimates is £1,199,330 [**Annex 12b**].

1.12 Special Expenses and Parish Council Precepts

1.12.1 A Special Expenses Scheme [**Annex 13a**] was introduced on the 1 April 2017 and following consultation public conveniences added to the Scheme with effect from 1 April 2022.

1.12.2 Details of the Special Expenses for 2023/24 are set out at [**Annex 13b**]. The basic amount of council tax of £210.71 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 Department for Levelling Up, Housing and Communities (DLUHC), 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 DLUHC can see that the referendum principles have been adhered to).

1.12.4 The resultant published (notional) council tax at Band D **for 2023/24 is £231.23**, being 3.0% higher than the published Band D council tax for 2022/23. 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 13b**].

1.12.6 Details of Parish Council precepts notified to the Borough Council are given at [**Annex 14**].

1.13 The Robustness of the Estimates and the Adequacy of the Reserves (Section 25 Statement)

- 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 15]** sets out the projected general fund and general revenue reserve balances based on an increase of 3% to the notional council tax level.
- 1.13.2 Section 25 of 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 £1,700,000, together with the initiative already built into the MTFs, the scaling back of office accommodation in the sum of £200,000 are delivered in the timeframe assumed in the Medium Term Financial Strategy.**
- 1.13.5 The Statement referred to above is appended at **[Annex 16a]** which Members are recommended to read thoroughly in order to understand the assumptions and risks that are set out. 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.** Members are, however reminded, of the fact that the Council's medium term finances are still categorised as RED on the Strategic Risk Register and it is essential that addressing the funding gap and associated savings targets are progressed as a priority.
- 1.13.6 A schedule of the reserves held by the Council at 1 April 2022 and proposed utilisation of those reserves to 31 March 2024 is provided at **[Annex 16b]**. 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 2022/23.
- 1.13.7 Members are **RECOMMENDED** to note and endorse the Statement **[Annex 16a]** 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 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 by way of a self-assessment. The outcome of such an assessment using a RAG rating was reported to the 26 July 2021 Audit Committee where a green rating was assigned to all but two, rated amber, of the seventeen Financial Management Standards.

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 A review of the Financial Resilience Index published in January 2023 identified no particular concerns in addition to that already highlighted in the report. A copy of the Index is attached at **[Annex 16c]** for information.

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 1.10.8, the calculation is set out at **[Annex 17]**. 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.

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

1.17 Financial and Value for Money Considerations

1.17.1 The scale of the financial challenge places financial sustainability at increased risk. The Council's medium term finances are shown as RED on the Council's Strategic Risk Register.

1.17.2 The uncertainty surrounding local government finances – the awaited outcome of the Fair Funding Review, what is to happen to NHB and other grant income, business rates reforms, in addition to the adverse impact of the current economic conditions and the Covid-19 pandemic continuing to unwind makes financial planning that much more difficult.

1.17.3 The 2023/24 provisional local government finance settlement represents a holding position until the next Parliament, aiming at stability. But the ruling out of a business rates reset, or a Fair Funding Review and the continuing uncertainty surrounding NHB means that the big questions about the future of the funding system remain unaddressed where 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 other grant income be 'in play' and how much might we expect to receive year on year in that period?

1.17.4 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?

1.17.5 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.

1.18 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 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 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.

1.18.4 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.

1.18.5 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 Waste Services Contract if not extended beyond the initial 8 year contract period could see increased costs over current levels. As mentioned at paragraph 1.9.10, however, it is important to note that forward planning already assumes a 'scaled-back' specification.
- 1.18.7 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.
- 1.18.8 The proceeds from the sale of Gibson West may not fully cover the cost of the Gibson East Refurbishment and or the sale takes longer than anticipated placing the Revenue Reserve for Capital Schemes under pressure and recourse to borrowing earlier than expected with consequent financial implications.
- 1.18.9 It is expected that the pension fund deficit will be recovered within the 10-year period of this MTF. However, depending upon the performance of the fund, a deficit could 'reappear' at any time. To mitigate the risk of this and the impact it would have on the MTF, we are working towards a position where the pension fund is overfunded so that there is an element of headroom.
- 1.18.10 Members are reminded that there are factors not reflected in the MTF, e.g. Climate Change agenda related costs other than a relatively small, earmarked reserve and the cost of borrowing for new capital plan schemes when and if required.
- 1.18.11 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.19 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

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

1.21 Recommendations

- 1.21.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the Revenue Estimates as presented to the Overview and Scrutiny Committee earlier in the cycle, together with the subsequent adjustments detailed at paragraph 1.4.2 and recommend to Council that they be adopted.
- 2) Update the Capital Plan as set out in paragraph 1.6.14 and recommend that Council adopt the Capital Plan accordingly.

- 3) Endorse the Capital Strategy as presented to the Overview and Scrutiny Committee earlier in the cycle and recommend to Council it be adopted.
- 4) Endorse the prudential indicators listed in paragraphs 1.7.7 including the new liability benchmark indicator and 1.7.11 and recommend to Council that they be adopted.
- 5) Note that for the financial year 2023/24 our *annual minimum revenue provision* is nil subject to the comment at paragraph 1.6.8.
- 6) Note and endorse the updated MTFS [**Annex 10a**].
- 7) Note and endorse the updated STS [**Annex 10b**] including the proposed scale and timing of each of the required savings and transformation contributions set out at paragraph 1.10.5.
- 8) Endorse the special expenses calculated in accordance with the Special Expenses Scheme and set out at [**Annex 13b**].
- 9) Note and endorse the Statement [**Annex 16a**] provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves (Section 25 Statement).

Background papers:

Nil

contact: Neil Lawley
Sharon Shelton

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Matt Boughton
Leader of the Council

Martin Coffin
Cabinet Member for Finance, Innovation and Property