

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**OVERVIEW AND SCRUTINY COMMITTEE**

**26 January 2023**

**Joint Report of the Director of Finance and Transformation and  
Cabinet Member for Finance, Innovation and Property**

**Part 1- Public**

**Matters for Recommendation to Cabinet**

**1 REVENUE ESTIMATES 2023/24**

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 2023/24 within the context of the Medium Term Financial Strategy and the Council's priorities. This year's budget setting process has had to incorporate the difficult task of estimating the ongoing impact of the pandemic and more recently the conflict in Ukraine and its impact on global economic conditions both next year and over the medium term.

**Dashboard/ Key Points**

- **Provisional local government finance settlement 2023/24 is better than expected and gives TMBC a Settlement Funding Assessment (core funding) for 1 year, although indication is that 2024/25 will be 'similar'. Includes allocation of £0.6m for New Homes Bonus; also includes a Funding Guarantee for 2023/24 of £1.8m. The overall funding INCREASE on 2022/23, taking into account other grants rolled in, is £502,000 (7.2%).**
- **Beyond 2024/25, 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 3% or £5, whichever is greater. By way of context, CPI inflation index for November is 10.7%.**
- **Funding Gap within the MTFs reworked based on the provisional Settlement and now iro £1.7m plus £200k to be delivered from office accommodation. Budget position currently categorised as RED on the Strategic Risk Register.**

## **1.1 Introduction**

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget for 2023/24.
- 1.1.2 Under the previous governance arrangements, the draft Estimates prepared by officers were initially considered, on behalf of Cabinet, by the Finance, Innovation and Property Advisory Board before being presented to this Committee.
- 1.1.3 Following the changes to governance arrangements early in 2022, the Cabinet now works alongside officers to prepare the draft Estimates. Accordingly, this report presenting the draft Estimates is now a joint report of the Director of Finance and Transformation and the Cabinet Member for Finance, Innovation and Property.
- 1.1.4 Under the Budget and Policy Framework, one of the responsibilities of this Committee is to scrutinise the draft Estimates and, where appropriate, make recommendations back to Cabinet.
- 1.1.5 This report is, therefore, intended as the basis for recommendations from this Committee to the Cabinet.
- 1.1.6 A special meeting of the Cabinet is scheduled for the 14 February to consider the recommendations of this Committee and, in addition, take into account the Council's final grant settlement.
- 1.1.7 At that special meeting on the 14 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2023/24 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 21 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.
- 1.1.8 The role of this Committee is to consider both the Revised Estimates for 2022/23 and the Estimates for 2023/24 [**Annex 1**] 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.

## **1.2 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 £2,150,000. The adverse global economic conditions, amongst other things, adding to the uncertainty in the scale of the funding gap over the past twelve months where the latest projected funding gap is £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 giving a figure of **£1,900,000** 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 2023/24 budget setting process. Further information about this including the **latest projected funding gap** is discussed later in this report at paragraph 1.11.

### 1.3 Provisional Local Government Finance Settlement

#### *Settlement Funding Assessment (Core Funding)*

1.3.1 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 provisional figures are expected to be confirmed in January / February 2023.

- 1.3.2 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 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 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 again funding what has been referred to as 'Negative RSG'.
- 1.3.4 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*

- 1.3.5 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.
- 1.3.6 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 and equating to a one-year only scheme).

#### *Under-indexing of the Business Rates Multiplier*

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

#### *Services Grant*

- 1.3.8 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*

- 1.3.9 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 is 5.1%.
- 1.3.10 It has been assumed from what has been said that the one-off funding guarantee applies to this Spending Review period, 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

1.3.11 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')				
<b>Settlement Funding Assessment</b>	<b>2,302,118</b>	<b>2,525,211</b>	<b>223,093</b>	<b>9.7</b>
<b>New Homes Bonus</b>	<b>1,193,947</b>	<b>610,499</b>	<b>(583,448)</b>	<b>(48.9)</b>
<b>Under-indexing of the Business Rates Multiplier</b>	<b>235,249</b>	<b>406,754</b>	<b>171,505</b>	<b>72.9</b>
<b>Lower Tier Services Grant</b>	<b>1,005,983</b>	<b>-</b>	<b>(1,005,983)</b>	<b>(100.0)</b>
<b>Services Grant</b>	<b>158,677</b>	<b>89,412</b>	<b>(69,265)</b>	<b>(43.7)</b>
<b>Funding Guarantee</b>	<b>-</b>	<b>1,765,688</b>	<b>1,765,688</b>	<b>-</b>
<b>Total Grant Funding</b>	<b>4,895,974</b>	<b>5,397,564</b>	<b>501,590</b>	<b>10.2</b>

1.3.12 The provisional local government finance settlement 2023/24 is subject to consultation. The return date for responses to the consultation is 16 January 2023. The response 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:

[Provisional local government finance settlement 2023 to 2024: consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2023-to-2024)

## 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 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.

1.4.3 Reforms to the Business Rates Retention Scheme / Business Rates have been deferred.

## 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 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**.
- 1.5.3 Referendum principles currently do not apply to town and parish councils.

## 1.6 Specific Issues

- 1.6.1 This year's budget setting process has had to incorporate the difficult task of estimating the ongoing impact of the pandemic and more recently the conflict in Ukraine and its impact on global economic conditions both next year and over the medium term.
- 1.6.2 The estimates assume the homeless caseload will continue to reduce and, in turn, cost of temporary accommodation.
- 1.6.3 The 2023/24 estimates include a further reduction in the grant award under the New Homes Bonus scheme equating to a one-year only scheme.
- 1.6.4 Certain government initiatives, e.g. Welfare Reform, will undoubtedly impact on the Council's finances over the medium term and an assessment of the potential impact is not straightforward. Nonetheless, I and Management Team will continue to monitor the potential impact as more information is made available.
- 1.6.5 In terms of the council tax base, built into the MTFS is an expectation about future growth in the number of band D equivalents over the ten-year period. It is important, however, to recognise that the scale of development growth both in any one year and over the medium term is very difficult to predict given the market as well as other site specific conditions.
- 1.6.6 Recommendations regarding fees and charges are made during this cycle of meetings and reflected in the revenue estimates.
- 1.6.7 Other than loss of investment income the revenue estimates do not take account of the revenue consequences of new capital schemes. At its meeting on 14 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the MTFS and, where appropriate, recommend additions to the Capital Plan.

- 1.6.8 The annual contribution to the Revenue Reserve for Capital Schemes excluding capital renewals is to continue to be set at £250,000 and rolled forward one year to 2028/29.
- 1.6.9 The annual contribution to the Building Repairs Reserve to meet ongoing maintenance and repair obligations is to remain at £750,000.
- 1.6.10 A large revenue project (circa £150,000) to 'back scan' paper records and to facilitate the rationalisation of office accommodation is included in the draft IT Estimates for 2023/24.
- 1.6.11 More detailed explanatory notes in respect of the revenue estimates can be found in the attached Revenue Estimates Booklet.

## 1.7 Revised Revenue Estimates 2022/23

- 1.7.1 Overall, the draft 2022/23 Revised Estimates show a decrease over the Original Estimates of £462,350 prior to making a contribution to/from the General Revenue Reserve. The principal variations are given in the table below:-

Description	DR £	CR £	
Business Rates Retention Scheme	282,450		
Salaries & Contributions	229,950		
Information Technology	125,000		
Energy	113,000		
Homelessness (exc. Salaries & Overheads)	85,800		
Advertising & Other Recruitment Costs	76,800		
Waste Services	57,450		
Planning Applications & Appeals	49,000		
Lower Tier Services / Services Grant	46,150		
Major Income Streams	41,050		
Tree Management	40,000		
S.106 Agreement Monitoring Income		35,000	
Parking Services Rental Income		39,050	
Housing Benefits Transfer Payments		41,400	
Summons Costs Recovered		50,000	
Insurance Contract		51,200	
Payment to Principals / Ticket Refunds		84,000	
Refugee Assistance Grant Allocation		117,250	
New Burdens Grant		122,300	
Contributions from KCC		209,500	
Temporary Accommodation		229,000	
Investment Income		554,800	
Other Net Changes		75,500	<b>CR</b>
<b>Total</b>	<b>1,146,650</b>	<b>1,609,000</b>	<b>462,350</b>

## 1.8 Revenue Estimates 2023/24

1.8.1 Overall, the draft 2023/24 Estimates show a decrease over the 2022/23 Original Estimates of £924,428 prior to making a contribution to/from the General Revenue Reserve. The principal variations are given in the table below:-

Description	DR £	CR £	
Budget Stabilisation Reserve	1,200,000		
Salaries & Contributions	761,400		
Waste Services	628,850		
Information Technology	256,850		
DLUHC Council Tax Support Admin. Grant	93,000		
Grounds Maintenance Contract	77,800		
Council Tax (Surplus) / Deficit	72,691		
Energy	65,000		
Business Rates	64,150		
Superannuation Backfunding	50,000		
Transfers in Lieu of Interest	40,800		
Tree Management	40,000		
Parking Services Maintenance of Grounds	36,000		
S.106 Agreement Monitoring Income		38,500	
Payments to Members		39,300	
Insurance Contract		46,350	
Refugee Assistance Grant Allocation		48,800	
Housing Benefits Transfer Payments		58,400	
General Government Grants inc. NHB		60,850	
Revenue Support Grant		137,300	
Temporary Accommodation		468,000	
Major Income Streams		624,000	
Investment Income		1,060,900	
Business Rates Retention Scheme		1,757,969	
Other Net Changes	29,400		<b>CR</b>
<b>Total</b>	<b>3,415,941</b>	<b>4,340,369</b>	<b>924,428</b>

1.8.2 Undoubtedly 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.

## 1.9 Draft Capital Plan

1.9.1 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.

- 1.9.2 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 14 February for endorsement by Council.
- 1.9.3 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.
- 1.9.4 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 2023/24 is £974,000.
- 1.9.5 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.
- 1.9.6 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.
- 1.9.7 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.

## **1.10 Consultation with Non-Domestic (Business) Ratepayers**

- 1.10.1 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.

1.10.2 Any comments or representations received from the consultees will be reported to Members during the budget process as appropriate.

## 1.11 Medium Term Financial Strategy Update

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

### *Prevailing Global Economic Conditions*

1.11.2 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.

1.11.3 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*

1.11.4 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.

1.11.5 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 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 ‘pulled back’ in order to mitigate, in part, the anticipated significant increase in cost.

- 1.11.6 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 + Other Grants)*

- 1.11.7 **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.

- 1.11.8 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%.

- 1.11.9 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*

- 1.11.10 Reforms to the Business Rates Retention Scheme / Business Rates have been deferred.

- 1.11.11 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*

- 1.11.12 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.

- 1.11.13 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.

- 1.11.14 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*

1.11.15 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, it could, dependent on the future performance of the pension fund and to lessen the risk of that occurring are looking to establish a 'buffer'.

### *Waste Services Contract*

1.11.16 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 1.11.5).

### *Climate Change Agenda*

1.11.17 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*

1.11.18 As we know, the funding gap is not static and constantly changes in response to both internal and external factors.

1.11.19 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. The difficult and challenging financial outlook demanding a **pressing and concerted** focus of attention. **Not forgetting**, amongst other things, the assumptions highlighted at paragraph 1.11.5 which are in themselves challenging.

1.11.20 The MTFs will continue to be updated as we move through the 2023/24 budget cycle and as more information becomes available and in due course presented with the Budget report to Cabinet in February.

## **1.12 Savings and Transformation Strategy**

1.12.1 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.

- 1.12.2 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*

- 1.12.3 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.
- 1.12.4 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)

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

### 1.13 Legal Implications

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

1.13.2 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.

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

### 1.14 Financial and Value for Money Considerations

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

1.14.2 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.

1.14.3 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?

- 1.14.4 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?
- 1.14.5 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.

## **1.15 Risk Assessment**

- 1.15.1 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.
- 1.15.2 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.
- 1.15.3 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.
- 1.15.4 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.
- 1.15.5 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.
- 1.15.6 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 1.11.5, however, it is important to note that forward planning already assumes a reduced specification.

1.15.7 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.

1.15.8 Members are reminded that there are factors not reflected in the MTFs, e.g. Climate Change agenda related costs other than a relatively small earmarked reserve and the cost of borrowing for new capital plan schemes when and if required.

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

## **1.16 Equality Impact Assessment**

1.16.1 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.

## **1.17 Policy Considerations**

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

## **1.18 Recommendations**

1.18.1 The Committee is asked to:

- 1) Consider the draft Revenue Estimates attached at **[Annex 1]** and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 14 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

contact: Neil Lawley  
Sharon Shelton

Sharon Shelton  
Director of Finance and Transformation

Martin Coffin  
Cabinet Member for Finance, Innovation  
and Property