

TONBRIDGE & MALLING BOROUGH COUNCIL
FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

07 January 2015

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 REVENUE ESTIMATES 2015/16

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 Advisory Board is to assist both the Cabinet and the Council in the preparation of the Budget for 2015/16 within the context of the Medium Term Financial Strategy and the Council's priorities.

<p>NOTE: THE REVISED ESTIMATES FOR 2014/15 AND THE ESTIMATES FOR 2015/16 ARE CONTAINED IN A SEPARATE BOOKLET CIRCULATED WITH THE AGENDA</p>

1.1 Introduction and Timetable

- 1.1.1 The Cabinet is responsible for formulating initial draft proposals in respect of the Budget for 2015/16. This report is intended as the basis for recommendations from this Board to the Cabinet.
- 1.1.2 The proposals will also be referred to the Overview and Scrutiny Committee for further consideration and advice. The Overview and Scrutiny Committee has a meeting on the 27 January in order to address this responsibility. A special meeting of the Cabinet is scheduled for the 12 February to consider the recommendations of this Board and the Overview and Scrutiny Committee and, in addition, take into account the Council's final grant settlement.
- 1.1.3 At that special meeting on the 12 February, the Cabinet will need to formulate its final proposals in respect of the Budget for 2015/16 and the council tax to be levied in respect of the Borough Council. The Full Council will meet on the 17 February to approve the Budget and set the Council Tax. The Full Council may adopt or amend the Cabinet's proposals.
- 1.1.4 The role of this Advisory Board is to consider in detail both the Revised Estimates for 2014/15 and the Estimates for 2015/16 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 current 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. 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 £2.0m** in the General Revenue Reserve by the end of the strategy period.
 - Seek to set **future increases in council tax having regard to the guidelines** issued by the Secretary of State.
 - Over the strategy period, **continue to identify efficiency savings and opportunities for new or additional income sources** within the Council's budget to contribute towards the identified 'funding gap'; and, if necessary thereafter, **seek appropriate reductions in service costs** following consultation, as necessary, with taxpayers.
 - Set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (set at £320,000 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 Members are fully aware that the Council faces an increasingly significant financial challenge as a result of the Coalition Government's budget deficit reduction programme which has resulted in a reduction in the financial support it can offer to local government.
- 1.2.4 We believe, however, that our MTFS is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the budget 'funding gap' will influence the timescales we can afford ourselves to address the problem.

- 1.2.5 Members will recall that when setting the budget for 2014/15 in February 2014 projections at that time suggested a ‘funding gap’ between expenditure and income of circa £1.875 million. Based on the above projection it was further suggested that we break the savings target into three tranches (tranche one £650,000, tranche two £700,000 and tranche three £525,000 to be achieved by ideally the start of the year 2016/17, 2017/18 and 2019/20). However, in order to maintain momentum and focus a savings target has been set for the start of next year (2015/16) by breaking out the first savings tranche into two parts, i.e. £200,000 followed by £450,000.
- 1.2.6 The MTFs will need to be updated and rolled forward as part of the 2015/16 budget setting process. Further information about this, together with the issues that Cabinet will need to address when updating the MTFs are set out later in this report at paragraph 1.12.

1.3 Provisional Local Government Finance Settlement

- 1.3.1 On 18 December 2014, provisional Settlement Funding Assessments for 2015/16 were published. Each local authority’s actual allocation for 2015/16 is expected to be confirmed in January 2015. Ordinarily, indicative figures for the following year are also made available, but with the General Election next year, indicative figures for 2016/17 have not been provided. The Spending Review 2015 due to take place shortly after the General Election will tell us more about the financial landscape for local government beyond 2015/16 with the potential for multi-year settlements which, if introduced, will aid financial planning.
- 1.3.2 Our provisional Settlement Funding Assessment for 2015/16 is £3,678,599. This represents a cash decrease of £677,918 or 15.6% when compared to the equivalent figure of £4,356,517 in 2014/15. Included in the Settlement Funding Assessment is the parish councils’ indicative allocation in respect of the council tax support scheme, however, it is not separately identified. In addition, the Council’s grant award under the New Homes Bonus (NHB) scheme in 2015/16 is £3,101,153 compared to £2,395,874 in 2014/15. Grant funding including NHB is, therefore, £6,779,752. A breakdown of the total grant funding into the various funding streams is set out in the table below.

	2014/15 £	2015/16 £	Cash Increase / (Decrease)	
			£	%
Local Share of Business Rates	2,049,944	2,089,115	39,171	1.9
Revenue Support Grant	2,306,573	1,589,484	(717,089)	(31.1)
Settlement Funding Assessment	4,356,517	3,678,599	(677,918)	(15.6)
New Homes Bonus	2,395,874	3,101,153	705,279	29.4
Total Grant Funding	6,752,391	6,779,752	27,361	0.4

1.3.3 In recent years the government has referred to the increase / (decrease) in an authority's **spending power**; and this is what tends to be quoted in media coverage. The increase in spending power calculated by the government is given as 0.3% and although not one and the same is not that different to the increase in our grant funding including NHB. Members will note that the decrease in our Settlement Funding Assessment was negated by the grant award under the NHB scheme.

1.3.4 Our concern has always been what happens when NHB in its current form 'ceases' and/or it is replaced by something else, and we hit the metaphorical 'cliff edge'. Putting to one side NHB, it is worth noting that, **of the twelve district councils in Kent, Tonbridge & Malling Borough Council continues to receive the lowest Settlement Funding Assessment both in total and per head.**

1.4 Local Referendums to Veto Excessive Council Tax Increases

1.4.1 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.

1.4.2 Members may recall as part of the 2013 Spending Review we were advised that the threshold was to be set at 2% for 2015/16 and this was reaffirmed on 18 November 2014. It should be noted that beyond 2015/16 the Medium Term Financial Strategy assumes a 3% increase in council tax year on year. To put this into context, 1% currently equates to about £85,000.

1.4.3 It was also announced as part of the 2013 Spending Review that funding for council tax freezes in 2014/15 and 2015/16 will **become part of local authority's baseline funding**. To this end the Government announced that it will provide funding equivalent to a **1.0%** increase in council tax in 2014/15 and 2015/16. As a result, and in the absence of information to the contrary, I am assuming that the **freeze funding due to be handed out in 2015/16 will continue indefinitely.**

1.5 Business Rates Retention

1.5.1 Members will be aware that, from April 2013, the Government introduced the Business Rates Retention scheme. For medium term financial planning purposes we continue to assume that the business rates baseline attributed to TMBC is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority will have to **meet a share of that shortfall up to a maximum of circa £153,800 this year, 2014/15**. This figure increases each year in line with inflation.

1.6 New Homes Bonus

1.6.1 The sustainability of the New Homes Bonus in its current form remains a concern.

- 1.6.2 For medium term financial planning purposes, I have assumed that there will be a phased withdrawal of the current NHB model from 2016/17 onwards and that the model will be replaced with something else, but with a reduced level of funding. It should be noted that, depending on how any replacement 'model' allocates funding to individual local authorities, there is a real risk that the Council could see its **overall grant funding reduce by more than is presently reflected in the Medium Term Financial Strategy.**
- 1.6.3 It is of course impossible to estimate with any certainty what that might mean for TMBC, but our working assumption is that this could require a **further potential savings tranche of circa £700,000.**

1.7 Specific Issues

- 1.7.1 Members are advised that certain government initiatives, e.g. Welfare Reform and giving consideration to the transfer of the Land Charges function to HM Land Registry 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.
- 1.7.2 In terms of the council tax base, built into the Medium Term Financial Strategy is an expectation about future growth in the number of band D equivalents over the ten-year period. Members will be aware that this growth (or otherwise) will impact on the level of the New Homes Bonus that the Council might receive in the future.
- 1.7.3 It is important to recognise, however, that, currently, the timing of development growth is very difficult to predict given the market as well as other site specific conditions. Therefore, our assumption about the growth in the tax base for the Medium Term Financial Strategy comes with a 'health warning'.
- 1.7.4 Recommendations regarding fees and charges shown elsewhere on this agenda or to be reported to the appropriate Advisory Board / Committee during this cycle of meetings are incorporated within the Estimates. Any changes required following consideration of fees and charges presented to this and other meetings will be incorporated before the Estimates are reported to Cabinet on 12 February.
- 1.7.5 Other than loss of investment income the draft Estimates presented do not take account of the revenue consequences of new capital schemes to the Capital Plan. At its meeting on 12 February, the Cabinet will need to give consideration to both the Revenue and Capital Estimates in the context of the Medium Term Financial Strategy and, where appropriate, recommend additions to the Capital Plan.
- 1.7.6 Members are aware of the budgetary pressure on the Building Repairs Reserve and that over time the annual contribution to the Reserve will need to increase to meet ongoing maintenance and repair obligations. As a result it is proposed that the contribution to the Building Repairs Reserve in the current year is increased from £650,000 to £750,000 and that there is a further stepped increase in the

annual contribution thereafter from £450,000 (2015/16 to 2019/20) and £475,000 (2020/21 to 2024/25) respectively to £500,000.

1.7.7 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of existing assets (vehicles, plant and equipment) as well as recurring capital expenditure. As a result in 2015/16 an additional contribution of £500,000 is to be made to the reserve for this purpose.

1.7.8 Turning to the individual Estimates, particular issues to be drawn to Members attention are set out below:

Corporate Services

1.7.9 The key issues are:

- 1) The forward estimate includes provision for the April 2015 pay award and continued provision for additional temporary staff in the Housing Benefits Section to assist with increased workload. Both revised and forward estimates include termination payments following changes to the establishment.

Chief Executive

1.7.10 The key issues are:

- 1) Revised estimate includes £230,000 to fund the final round of the Community Enhancement Fund bids.
- 2) Economic development revised estimate includes £217,000 for Business Support scheme grants to assist with the recovery from severe weather conditions. These grants are met in full from a government grant.

Director of Central Services

1.7.11 The key issues are:

- 1) Following the completion of a rent review at Vale Rise industrial estate an additional £25,000 one-off payment is included within the revised estimate in respect of backdated rent.

Director of Finance and Transformation

1.7.12 The key issues are:

- 1) Housing benefits overpayment levels have risen sharply due to a number of reasons including data matching, sharing of Real Time Information (RTI)

with HMRC, claimants moving into work in an improving economy and variable rate hours employment contracts.

- 2) The DWP administration grant for 2015/16 has been reduced by 10.4%.

Director of Planning, Housing and Environmental Health

1.7.13 The key issues are:

- 1) Savings have been achieved from new building control partnership with Sevenoaks District Council.
- 2) Penalty Charge Notice income has reduced due to improved parking discipline (and consequently fewer PCNs) achieved through clarity in new parking regimes and high profile enforcement presence in car parks and key on-street locations.
- 3) Homelessness accommodation costs have increased due to the impact of welfare reform.

Director of Street Scene and Leisure

1.7.14 The key issues are:

- 1) The budget provisions for contract payments have been increased by 2.5% reflecting the level of inflation (RPI) at the time of preparing the estimates.
- 2) Refuse collection, recycling and street scene budgets include provision for growth in new properties (£28,000).
- 3) Recycling income is lower than originally estimated as a result of tonnages collected being lower than anticipated and reductions in prices.
- 4) Savings have been achieved from the new Ground Maintenance Contract commencing 1 January 2015.

1.8 Revised Revenue Estimates 2014/15

Overall, the Revised Estimates show a **decrease over the Original Estimates of £58,850 prior** to making a contribution to/from the General Revenue Reserve. The principal variations are given in the table below.

Description	DR £	CR £
Housing Benefits (net of subsidy)	151,600	
Redundancy Costs	91,450	
Building Repairs Reserve	82,000	
Electoral Registration	24,250	
Crime & Disorder Initiatives		20,000

Release of Provision		20,000	
Summons Costs Recovered		20,000	
Industrial Estate Rent		25,000	
Housing Benefits Grants		25,000	
Ground Maintenance Contract		36,000	
VAT Refund		63,950	
Salaries & Contributions		135,750	
Other Net Changes		62,450	CR
Total	349,300	408,150	58,850

1.9 Revenue Estimates 2015/16

1.9.1 Overall, the draft Estimates 2015/16 total £12,396,350 **prior** to making a contribution to/from the General Revenue Reserve. This represents a **decrease of £1,022,850** or 7.6% over the Original Estimates for 2014/15. The principal variations are given in the table below.

Description	DR £	CR £	
Revenue Reserve for Capital Schemes	500,000		
Refuse, Recycling & Street Cleansing Contract	113,100		
Housing Benefits (net of subsidy)	97,250		
Benefits Administration Grant	46,850		
Major Income Streams	32,400		
Redundancy Costs	28,700		
Tonbridge Gateway Agreement	24,750		
Crime & Disorder Initiatives		20,000	
Summons Costs Recovered		20,000	
Ground Maintenance Contract		100,500	
Salaries & Contributions		130,900	
Building Repairs Reserve		150,000	
New Homes Bonus		705,300	
River Wall at Wouldham Reserve		700,000	
Other Net Changes		39,200	CR
Total	843,050	1,865,900	1,022,850

1.9.2 It is likely that there will need to be changes made to the Estimates as we move through the budget setting process. It is my intention to bring these together for the Cabinet Budget meeting in February, rather than introduce them in a piecemeal fashion.

1.10 Draft Capital Plan

1.10.1 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 ('wish' list) 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.

1.10.2 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 12 February for endorsement by Council. With this in mind Members are advised that other than loss of investment income the revenue consequences of new capital schemes **have yet to be incorporated within the Estimates.**

1.10.3 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of existing assets (vehicles, plant and equipment) as well as recurring capital expenditure.

As a result there is an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance. Members are reminded that in setting the budget for 2014/15 that allowance was set at £320,000. It should be noted, based on current projections, that from 2018/19 the Council will need to borrow to fund such expenditure.

1.11 Consultation with Non-Domestic Ratepayers

1.11.1 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.

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

1.12 Update of our Medium Term Financial Strategy

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

- those factors that have contributed towards addressing the ‘funding gap’;
- those factors that have taken matters in the ‘wrong’ direction;
- the announcement on the level of council tax increase for 2015/16 above which the local authority would be required to seek the approval of their electorate via a local referendum and the government’s commitment in partnership with local authorities to freeze council tax in England for a further year;
- the ongoing impact of the Business Rates Retention scheme; and
- award of New Homes Bonus.

1.12.2 Members will recall we set ourselves a savings target this year of £200,000 and I am extremely pleased to report to date savings in the order of £475,000 have been achieved. However, after taking into account those issues outside our control that either take the ‘funding gap’ in the right or wrong direction, **net savings in the order of £325,000 have been achieved** when compiling the Revenue Estimates for 2015/16.

1.12.3 In addition, the council tax base is higher than estimated as a result of better than expected growth, positive improvement in the council tax base in respect of the council tax reduction scheme and changes to discounts and exemptions approved by Council in November 2014. This, in turn, **making a contribution to the savings target of circa £150,000.**

1.12.4 A summary of the make-up of the net savings achieved in the order of **£475,000** can be found at **[Annex 1]**. As a result we have not only met this year’s savings target, but began to make ‘in roads’ into the next savings tranche, although of course a significant financial challenge remains.

1.12.5 Assuming a **council tax referendum threshold of 2%** (see paragraph 1.4.2) **the updated ‘funding gap’ (savings target) is circa £1.4 million.** As in previous iterations of the MTFS the savings target can be broken down into tranches. For example, the savings target could be broken down into three tranches.

- 1) Tranche one £200,000 to be achieved by 1 April 2016.
- 2) Tranche two £700,000 to be achieved by 1 April 2017.
- 3) Tranche three £500,000 to be achieved by 1 April 2018.

1.12.6 If Members were minded, in due course, to implement a **council tax 'freeze'**, then, assuming the 2015/16 freeze funding continues indefinitely in the 'baseline' (see paragraph 1.4.3) **the updated 'funding gap' (savings target) would be in the order of £1.525 million.** The savings target could again be broken down into three tranches.

- 1) Tranche one £325,000 to be achieved by 1 April 2016.
- 2) Tranche two £700,000 to be achieved by 1 April 2017.
- 3) Tranche three £500,000 to be achieved by 1 April 2018.

1.12.7 The figures above are, presently, indicative figures intended to give Members a 'flavour' of the choices and challenges ahead. However, it can be seen from the above that the implications of accepting the grant to freeze council tax as opposed to a council tax increase of 1.99% adds around £125,000 to the overall savings we have to make.

1.12.8 Clearly, the Medium Term Financial Strategy will continue to be updated as we move through the 2015/16 budget cycle and as more information becomes available. Members will note from this latest 'update' that the projected funding gap is £1.4 million (increase in council tax 1.99%) or £1.525 million (council tax freeze).

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.

1.14 Financial and Value for Money Considerations

1.14.1 As set out above.

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.

1.15.3 The increased uncertainty and volatility particularly in some of our major sources of income (business rates and New Homes Bonus) make financial planning that more difficult with the increased risk of significant variances compared to projections.

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

1.16 Equality Impact Assessment

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

1.17 Recommendations

1.17.1 The Advisory Board is requested to:

- 1) Consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 12 February.
- 2) Within the context of the financial pressures outlined in the report, request that the Overview and Scrutiny Committee consider the draft Revenue Estimates contained in the Booklet and make such recommendations, as it considers appropriate, to Cabinet for its special meeting on 12 February.

Background papers:

Nil

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