

CABINET

05 December 2023

Report of the Management Team

Part 1- Public

Matters for Recommendation to Council

1 MEDIUM TERM FINANCIAL STRATEGY AND SAVINGS UPDATE

A report updating on the Medium Term Financial Strategy (MTFS) having regard to the latest financial issues. The report sets out the savings that have been identified and will assist in meeting 'tranche 1' of the latest savings target. Cabinet are urged to give consideration as to how future tranches can be met.

In addition, as we approach the 2024/25 Budget cycle the report sets out proposals for the allocation of the one-off windfall sum highlighted in the 'Financial Planning and Control 2023/24' report to Cabinet in October.

Dashboard/ Key Points

- Budget position categorised as RED on the Strategic Risk Register
- Funding Gap, representing new savings that need to be identified and most importantly delivered, projected at £1.7m when budget was set in February 2023. Interim review now suggests that after allowing for savings incorporated into the 24/25 base budget this is now circa £1.78m.
- Savings target "tranche 1" of £500k was expected to be in place by April 2024. Progress is being, but due to timings on the consultation required for some income increases, the full target is unlikely to be met for budget setting in February 2024. More significant work for the remaining savings to be achieved is needed.
- Economic climate continues to be challenging with higher than target inflation, coupled with higher bank rate set by Bank of England.
- Uncertainty regarding local government finance settlement, Fair Funding Review, Negative RSG, New Homes Bonus cessation and Business Rates baseline reset making it difficult to assess the true position.
- Proposals made for the deployment of the one-off (almost) £2m windfall sum for incorporation into the 2024/25 Budget cycle.

1.1 Introduction

1.1.1 This report has three purposes:

- 1) it provides another update to the MTFFS as the budget cycle for 2024/25 gets underway;
- 2) it reports on the savings that have either been secured thus far, or which are in the process of consultation, which might contribute to “tranche 1” of the savings target;
- 3) sets out options to utilise the windfall VAT sum of (almost) £2m which was highlighted in the October ‘Financial Planning and Control 2023/24’ report to Cabinet.

1.2 The Medium Term Financial Strategy

1.2.1 Cabinet is reminded that the 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.

1.2.2 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.

1.2.3 The MTFFS 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 (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.

1.2.4 The MTFFS is supported by the Savings and Transformation Strategy (STS). The purpose of the STS is to formulate an overarching plan as to how the "funding gap" identified within the MTFFS can be addressed.

1.3 Economic Situation

1.3.1 The Audit Committee, under the regular Treasury Management report, receives detailed information about the economic background, and it is not the intention to repeat this here.

1.3.2 However, it is worth noting that at the time of writing this report, CPI inflation for the year to end of October was 4.6%. The Bank of England raised interest rates to 5.25% in August, where they remain, the highest since 2007.

1.4 Impact on Tonbridge & Malling Borough Council's MTFFS

1.4.1 The Council's financial plans are significantly affected by the turmoil in the economic and financial markets. Whilst this will certainly not be the last update of the MTFFS before the budget is set for 2024/25, it is nevertheless important that Members are updated with the "*direction of travel*" so that plans can be formulated and implemented wherever necessary.

1.4.2 The problem is, of course, that there is uncertainty about many things. These include:

- Speed and rate at which inflation returns to levels more akin to the targets set by the Bank of England
- Local government finance settlement
- Fair Funding Review and future of New Homes Bonus
- Timing of Business Rates Retention "reset"
- Confirmation as to the permitted increase in council tax (without undertaking a referendum) for 2024/25

1.4.3 Of course, these issues are not unique to Tonbridge and Malling. Members will have seen many examples in the press about a number of local authorities issuing S114 notices (to advise that a council cannot find a way to finance its budget). TMBC is not in this position presently but the uncertainty regarding future settlements and economic factors is making it extremely difficult to plan ahead.

1.4.4 With a General Election due to take place sometime during 2024, we are now assuming that the finance settlement for 2024/25 will be another single year settlement; and that the implementation of a Fair Funding Review will not take

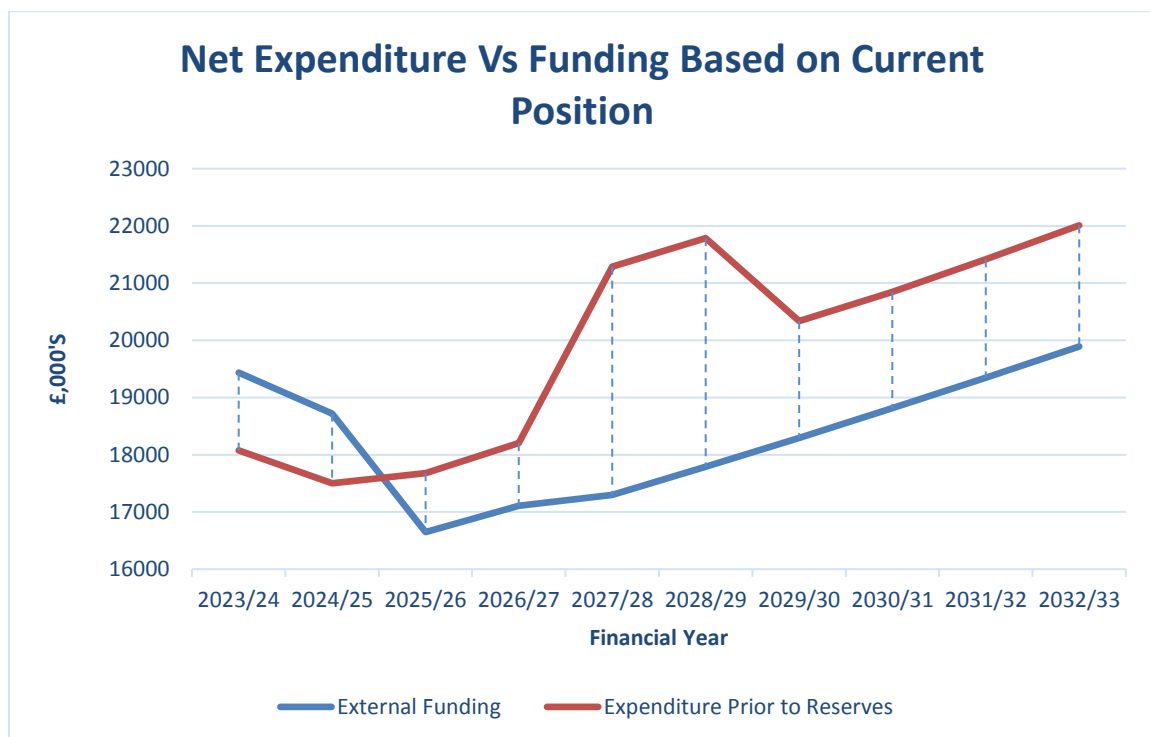
place until 2025/26 at the earliest, and a Business Rates reset not until 2027/28. Whilst uncertainty does not help with financial planning, in many respects the later this happens the better it is likely to be for TMBC given that we do not expect to fair well under the Fair Funding Review. In addition, a future reset of Business Rates will consolidate any growth we have achieved into the baseline making it harder to retain additional income.

- 1.4.5 As Members are aware, there are pockets within the organisation where resources are extremely stretched. The Council's External Auditors, Grant Thornton, have also made key recommendations in respect of procurement and performance management - areas where the Council has no dedicated resources.
- 1.4.6 As part of the Estimates process, Management Team collate a list of areas where there is pressure for growth and which are not factored into the current iterations of the MTFS. For example:
- Safeguarding – no dedicated resource
 - Climate Change – officer on a fixed term contract only
 - Economic Regeneration - officer on a fixed term contract only
 - Procurement - no dedicated resource
 - Performance Management – no dedicated resource
 - Transformation – no dedicated resource
 - No provision made in MTFS to service debt charges through borrowing for Capital Projects
- 1.4.7 It is important to note that **NO PROVISION** is made in the interim update of the MTFS that follows for any of the above.
- 1.4.8 Provision **HAS** been made for the following growth pressures, although the absolute impact of each will not be known for some time. These include Grounds Maintenance, Waste Contract, Homelessness and ongoing inflationary pressure for the next few years.
- 1.4.9 Members will be aware that, partially offsetting some of these pressures, are changes to Planning Fees (set by government but subject to performance criteria) and an increase in investment income.
- 1.4.10 As mentioned in the Director of Finance & Transformation's report to Cabinet in October, business rates from the Panattoni Park development are proving to be higher than the original (prudent) estimates. The effect of this is to generate additional income over and above estimated levels until such time as the government implements a business rates Reset – which we anticipate to be

effective from 2027/28. At this stage, we would expect income to significantly reduce.

- 1.4.11 Taking on board all of the above, a further update of the MTFS has been prepared which Members need to view as '**work in progress**' and clearly is sensitive to movement in any of the factors listed.
- 1.4.12 A graphic illustration of how the Council's financial outlook might be WITHOUT any savings intervention is set out in Graph 1 below. As Members will note there is an unacceptable and unsustainable gap between the net revenue expenditure and the 'external' funding.

Graph 1



Note: External funding includes council tax, business rates and government grant

- 1.4.13 As there becomes more certainty about some of the factors above, the MTFS will be updated again but **for NOW** our calculations suggest that (based on best information to date and savings identified and incorporated into Estimates via tables A and B at paragraph 1.5.1 below) **the funding gap is now circa £1.78m**. In other words, it is similar to the position noted at the Budget meeting in February. That said, it is important to stress that none of the growth pressures set out in paragraph 1.4.6 have been included in this interim update and therefore if progress is made on any of these areas, the MTFS will naturally need to change.
- 1.4.14 Members and senior officers have a duty to provide for the long term financial sustainability of the Council. It is imperative that we prepare plans to deliver any

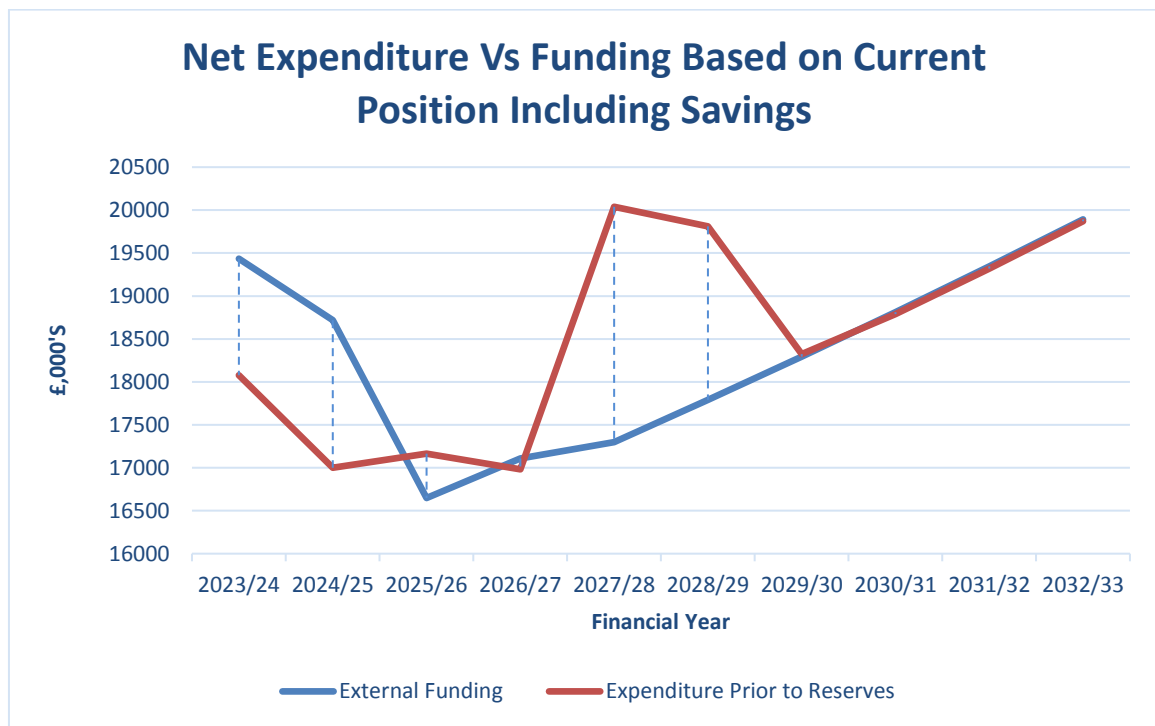
scenario that the Council might face. Dividing the funding gap into tranches as we have done for many years allows us to “flex” the approach as new information comes forward. Assuming a gap of £1.78m:

- Tranche 1 – *balance of £380,000 – by April 2024
- Tranche 2 – £700,000 – by April 2026
- Tranche 3 – £700,000 – by April 2028

Note * Progress towards achievement is set out in the following paragraph.

1.4.15 If these savings were to be delivered in these timescales and net expenditure adjusted accordingly, the graph above can be re-presented as Graph 2 as follows:

Graph 2



Note: External funding includes council tax, business rates and government grant

1.4.16 As Members will note from the above, by 2029/30 (based on current information and assumptions and the delivery of savings in accordance with the programme) net revenue expenditure and external funding would theoretically align providing a balanced budget and financial sustainability (all other things being equal) towards the end of the MTFS period.

1.4.17 **Of course, inevitably things will change and plans will need to be adapted but this is the general direction of travel we need to follow.**

1.5 Savings/Additional income Identified

1.5.1 Progress is being made with identifying and implementing savings/additional income towards the Tranche 1 target which was set at £500k during the Budget setting in February 2023. Potential savings are broken down into 3 categories:

- 1) Part A – potential savings/additional income have already been presented to Members and are ready to be consolidated into Estimates;
- 2) Part B – potential savings/additional income that are in the process of being presented to Members and, subject to agreement, some of which have been consolidated into draft Estimates
- 3) Part C – potential savings/additional income (over and above that already factored into MTFS) that is in the process of being presented to Members but, due to timing of reports and approvals, cannot be included in draft Estimates.

Part A	£000	Incorporated in 2024/25 Draft Est
Members' Allowances (<i>following Full Council decision in June 2023</i>)	25	Yes
Microsoft Azure costs (<i>following cessation of Uniform system</i>)	12	Yes
Staff mileage and miscellaneous costs	15	Yes
Uninhabitable Council Tax Discount (<i>following Council Decision, pending the 21 day public notice period</i>)	12	Yes
TOTAL	64	

Part B	£000 circa	Incorporated in 2024/25 Draft Est
Empty Homes Premium Changes (April 2024) (<i>Subject to agreement at full Council February 2024</i>)	60	No
Litter Enforcement Contract (<i>subject to tender</i>)	15	No
Fees and Charges (<i>report to Communities and Environment Scrutiny Select Committee 6 November</i>) - value above provision in MTFS	9	Yes
Fees and Charges (<i>report to Finance Regeneration and Property Scrutiny Select Committee 14 November</i>) – value above provision in MTFS	47	Yes
Fees and Charges (<i>report to Licensing and Appeals Committee 29 November</i>) – value above provision in MTFS	0	Yes
Fees and Charges (<i>report to Housing and Planning Scrutiny Select Committee 12 December</i>) – value above provision in MTFS	0	Yes
TOTAL circa	131	

Part C	£000 Up to	Incorporated in 2024/25 Draft Est
Premium for Second Homes (April 2025) <i>(Subject to agreement at full Council February 2024)</i>	53	No
Car Parking Charges – Evenings/Weekends <i>(subject to public consultation and consideration by JTB/Cabinet in March 2024 as appropriate)</i>	338	No
Car Parking Charges – increases above MTFS provision <i>(subject to public consultation and consideration by JTB/Cabinet in March 2024 as appropriate)</i>	198	No
Car Parking Charges – New Charges <i>(subject to public consultation and consideration by JTB/Cabinet in March 2024)</i>	138	No
TOTAL up to	727	

- 1.5.2 As Members will see from the tables above, around £120k has been incorporated into the draft 2024/25 Estimates, with potentially a further £75k in train subject to Member decision. This does, therefore, leave a gap of circa £305k against the original Tranche 1 target of £500k.
- 1.5.3 The Part C car parking, proposals will not have been agreed (or otherwise) before the Budget is set in February and any new charges (whatever they are) will not come into effect until at least Summer 2024. At this stage it is difficult to predict how this might develop but Members will note that there is the **potential** to realise up to £674k after allowing for refunds, maintenance and enforcement costs.
- 1.5.4 Similarly the implementation of the Second Homes Premium cannot take place until April 2025 at the earliest (subject to Member agreement).
- 1.5.5 As Members will see, it is unlikely that the Tranche 1 will be fully met by the time the Budget is set in February 2024. Given the change in administration and make-up of the Council since the local elections in May, Management Team recognise that this is now, in reality, a tall ask. Cabinet therefore may wish to consider splitting the Tranche 1 target into 2 parts (Tranche 1a and Tranche 1b) , pushing an element back into 2024/25. Provided that the full tranche is met by the time the budget is set for 2025/26 (i.e. in February 2025) this only has a minor effect on the MTFS. Cabinet are reminded that, so far, £120k has been identified and incorporated into Draft Estimates for 2024/25.
- Tranche 1a - by 1 April 2024
 - Tranche 1b – by February 2025.

Cabinet's **INSTRUCTIONS** are **REQUESTED**.

1.5.6 Of course, this is only addressing the first tranche of a much bigger funding gap as outlined in section 1.4. **In terms of tranches 2 onwards, urgent and concerted effort will need to be made by both Members and officers in identifying how these significant sums can be found.** This undoubtedly will be a combination of “big ticket items”, service rationalisation, cessation of services with least priority, and the continued search for efficiencies. **Only this will ensure the continued financial sustainability of the Council.**

1.6 Windfall VAT sum

1.6.1 As advised in the report to Cabinet in October, the Council has received a ‘one-off’ windfall of almost £2m in connection with a claim made to HMRC in respect of the treatment of sports and leisure activities.

1.6.2 For the avoidance of doubt it does not resolve the funding gap or savings target, but could allow some capital projects or one off schemes to go ahead which otherwise wouldn’t be the case. By default, since its receipt the windfall sum is presently being held in the General Revenue Reserve.

1.6.3 Following informal discussion with Cabinet, to assist in the forthcoming Estimates cycle it is proposed that:

- 1) A sum of £500,000 is transferred to the Climate Change Reserve in order to provide match funding for bids to the decarbonisation fund and/or the Swimming Pool Support Fund;
- 2) A sum of £750,000 is transferred to the Revenue Reserve for Capital Schemes to assist with the funding of capital plan schemes; and accordingly the annual capital allowance is increased to £1m in 2023/24 from its usual £250,000 to allow additional approved schemes to proceed;
- 3) An earmarked reserve is set up with £150,000 to facilitate Regeneration work in Tonbridge;
- 4) The draft Estimates for 2024/25 include a Community Grants Scheme with a one-off sum of £87,000 being earmarked for both the grants and the administrative support; and
- 5) A one-off sum of £50,000 is included in the draft 2023/24 Revised Revenue Estimates for staff recognition with any details to be agreed by the General Purposes Committee.

1.6.4 The balance of the windfall, £430,000, will be held within the General Revenue Reserve.

1.6.5 Members should note that the above proposals do not constitute spending decisions – any decisions will be made through the Budget process.

1.7 Legal Implications

- 1.7.1 Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.
- 1.7.2 Section 114 of the Local Government Finance Act 1988 requires a council's chief finance officer to issue a s114 Notice reporting to all elected members an actual or impending seriously unbalanced budget.

1.8 Financial and Value for Money Considerations

- 1.8.1 The Council maintains a prudent level of reserves to provide a safety net for unforeseen or other circumstances. The Section 25 'Robustness of Estimates and Adequacy of Reserves' statement that the Council's Chief Financial Officer (i.e. Director of Finance & Transformation) is required to produce under the local Government Finance Act 2003 to support Members in considering the Budget Setting report, lists examples of why the Council needs to retain a minimum level of reserves. Examples include Emergencies; Economic and world recession; Interest Rate volatility; Income volatility; and Government Legislation.
- 1.8.2 The Council has resolved to hold a minimum level of general revenue reserve of £3 million in order to provide for a host of potential financial and operational risks. At the start of 2023/24, the general revenue reserve balance was circa £8.6m and together with the budget stabilisation reserve giving some headroom to deal with issues arising without more immediate 'draconian' measures.
- 1.8.3 Significant savings are required by April 2028 in order to preserve the integrity of our financial plans. These are **extremely** challenging times, and it has never been more important than to now focus firmly on the delivery of the necessary savings.

1.9 Risk Assessment

- 1.9.1 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.
- 1.9.2 Through prudent husbandry of resources, Council has reserves, including a Budget Stabilisation reserve, to help to smooth the path in the delivery of savings. However, reserves are finite and it is imperative that actions are taken at the earliest opportunity in order to preserve the longer term financial sustainability of the Council.

- 1.9.3 Much debate has been made of the potential and (perhaps necessity in some cases) for local authorities to issue s114 notices (under the s114 (3) of the Local Government Finance Act 1988). For Members' information this says that the Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him/her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure. As Cabinet will have gathered, due to careful and prudent husbandry of resources in the past, TMBC is not in this position. **However, it is imperative that we carefully monitor and contain expenditure and continuously update our forecasts to ensure that we remain on track.** This will of course include reflecting in our forecasting the outcome of the Fair Funding Review and Business Rates Reforms which is as yet an unknown quantity.
- 1.9.4 The financial position is recorded as RED on the Strategic Risk Register, and Cabinet's attention is drawn to this.

1.10 Equality Impact Assessment

- 1.10.1 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.

1.11 Policy Considerations

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

1.12 Recommendations

- 1.12.1 Cabinet is **REQUESTED** to:

- 1) **Note** the latest forecast of the Medium-Term Financial Strategy and the funding gap which is now estimated to be £1.78m after incorporating £120k of savings into Draft Estimates for 2024/25 (see paragraph 1.4.11).
- 2) **Note** the progress with the savings/transformation contributions for Tranche 1 as set out in paragraph 1.5.2
- 3) **Consider** whether Tranche 1 savings target should be split into two parts (1a and 1b) as set out in paragraph 1.5.5
- 4) **Consider** how a programme for investigating and identifying the necessary savings for tranches 2 onwards can be implemented and actioned as soon as possible.
- 5) **Recommend** to Full Council the proposals set in out paragraph 1.6.3 following the receipt of the windfall sum.

Background papers:

Nil

Sharon Shelton
Director of Finance & Transformation

contact: Sharon Shelton
Paul Worden

Julie Beilby
Chief Executive

For Management Team