

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

13 February 2024

Report of the Interim Chief Executive, Director of Finance and Transformation,
Leader of the Council and Cabinet Member for Finance and Housing

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET 2024/25

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 2024/25.

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

- Provisional local government finance settlement 2024/25 better than expected: Overall funding INCREASE on 2023/24 is £416,000 (7.7%).
- Due to increased NNDR receipts, release of NNDR appeals provision and better than expected settlement TMBC has a balanced budget for 2024/25 and has been able to set aside funds in earmarked reserves for key priorities identified within the Corporate Strategy.
- Beyond 2024/25 there is no indication of future core funding, including any replacement (or not) for NHB making financial planning difficult. Future funding likely to be lower.
- Referendum principles mean that council tax can only rise by greater of 3% or £5. CPI for December 3.9%. Recommended 3% increase in TMBC element of council tax bill giving a council tax at Band D for 2024/25 of £238.16; a cash increase of £6.93 per annum.
- Funding Gap, representing new savings that need to be identified and delivered, now projected at £1.705m over the medium term. In addition, commitment of saving £200,000 (release of office accommodation) and £400,000 (cost of temporary accommodation).
- Four capital schemes to be added to Capital Plan in 2024/25.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 20 February, Members will determine both the Budget and the level of council tax for 2024/25. The detailed Estimates for 2024/25 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 1.5 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 2024/25; 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 2024/25 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 This time last year the projected funding gap was put at £1,700,000 with an initial tranche of savings in the sum of £500,000 to be delivered by April 2024. During the course of the current year, as will be noted from paragraph 1.11.3 later in this report, that target of £195,000 is on its way to being achieved.
- 1.1.4 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 £1,705,000. 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 and a £400,000 reduction in Temporary Accommodation costs needs to be added in, giving a figure of **£2,305,000** 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.**
- 1.1.5 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 2024/25 a referendum will be triggered where council tax is increased by **more than 3% or £5, whichever is higher**.
- 1.1.6 This time last year the MTFS assumed a council tax increase of 3%. For the purposes of preparing the budget papers and updating the MTFS an **increase of 3% in 2024/25** has been assumed followed by the higher of 2% or £5 each year thereafter.
- 1.1.7 Attached at **[Annex 1]** for Members' information is a copy of the Referendums Principles setting out the level of council tax increase for 2024/25 above which the

local authority would be required to seek approval of their electorate via a local referendum.

1.1.8 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:

- Corporate Strategy
- Local Government Finance Settlement
- Kent Business Rates Pool
- Revenue Estimates 2024/25
- 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
- Section 25 Statement - 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

1.1.9 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 1.221.22 of the report.

1.2 Corporate Strategy

1.2.1 The Council adopted a new Corporate Strategy in 2023 setting out the values key to achieving the strategy of **innovation, transformation, and delivery**.

1.2.2 The Strategy sets out the four key priorities for the borough:

- 1) Efficient services for all our residents, maintaining an effective council;
- 2) Sustaining a borough which cares for the environment;
- 3) Improving housing options for local people whilst protecting our outdoor areas of importance;
- 4) Investing in our local economy.

1.2.3 In preparation of these Estimates, regard has been taken to the above priorities and in particular the Cabinet highlighted the need to address the following key issues which contribute to the above:

- Provision of cost-effective Temporary Accommodation;
- Regeneration of Tonbridge (including replacement of Angel Centre);
- Climate Change, including carbon neutral leisure centres;
- Transformation to improve efficiency and effectiveness; and
- Delivery of the Local Plan.

1.2.4 As presented to the Overview and Scrutiny Committee, the Estimates for 2024/25 incorporate additional earmarked reserve contributions in order to provide funds to support the above activities as relevant schemes are developed.

1.3 Local Government Finance Settlement

Settlement Funding Assessment (Core Funding)

1.3.1 On 19 December 2023, 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 2024/25. As Members are aware this provisional settlement is subject to consultation and the final settlement is normally confirmed in late January/early February each year after any representations have been considered.

1.3.2 At the time of writing and publishing this report, the final settlement has not been published, and the budget proposals that follow are therefore based on the provisional settlement.

1.3.3 Members may be aware that Michael Gove MP made a statement on 24 January 2024 regarding additional funding for local government which will form part of the final settlement. The additional funding is primarily directed to social care authorities, but there is also general reference in the Statement to increasing the thresholds with regard to the Funding Guarantee. At this stage we do not know

what additional allocation, if any, there will be for TMBC. The Statement from Michael Gove MP can be found through the following link:

<https://questions-statements.parliament.uk/written-statements/detail/2024-01-24/hcws206>

Members will note that the Statement from Michael Gove MP makes reference to each local authority being required to produce a productivity plan. Currently we have no more information on this requirement, but once this becomes clearer Members will be updated.

- 1.3.4 The Settlement Funding Assessment (SFA) is for one year only (2024/25) and the Fair Funding Review deferred to a future date. As explained in previous reports, it is not expected that TMBC will fare well under a review and therefore, for now, the delay can be seen as good news. However, the uncertainty over local government funding more generally is prolonged and makes financial planning very difficult.
- 1.3.5 Our provisional SFA for the year 2024/25 as shown in the table below is £2,655,451, an uplift of 5.2% compared to the sum received in 2023/24. 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

- 1.3.6 No further legacy payments are due under the New Homes Bonus (NHB) scheme giving an allocation for the year 2024/25 only which in our case is £343,373, the reduction is as an effect of lower property completions during October 2022 and October 2023 and a higher level of unoccupied homes at the date of assessment. These unoccupied properties should come into use during the next period covering October 2023 to October 2024 reversing some effect of the losses in the current year if the NHB funding continues.
- 1.3.7 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, the latter is included within the assumptions for the MTFS.

Under-indexing of the Business Rates Multiplier

- 1.3.8 The payment for the under-indexing of the business rates multiplier is £464,291.

Services Grant

1.3.9 This was introduced in 2022/23 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 2024/25 as shown in the table below is £14,648.

Funding Guarantee

1.3.10 The previous Lower Tier Services Grant and a proportion of the expired New Homes Bonus legacy payments have been repurposed to create a funding guarantee to ensure that all authorities will see an 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%.

1.3.11 It has been assumed from what has been said that the funding guarantee applies to this Spending Review period, the years 2023/24 and 2024/25. Our provisional allocation for the year 2024/25 as shown in the table below is £2,335,834.

Total Grant Funding

1.3.12 Total grant funding for the year 2024/25 as shown in the table below is £5,813,597, a cash increase of £416,032 or 7.7% when compared to that received in 2023/24.

	2023/24	2024/25	Cash Increase/ (Decrease)	
	£	£	£	%
Local Share of Business Rates (baseline)	2,387,888	2,509,032	121,144	5.1
Revenue Support Grant	137,323	146,419	9,096	6.6
Settlement Funding Assessment	2,525,211	2,655,451	130,240	5.2
New Homes Bonus	610,499	343,373	(267,126)	(43.8)
Under-indexing of the Business Rates Multiplier	406,754	464,291	57,537	14.1
Services Grant	93,093	14,648	(78,445)	(84.3)
Funding Guarantee	1,762,008	2,335,834	573,826	32.6
Total Grant Funding	5,397,565	5,813,597	416,032	7.7

1.3.13 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]**.

1.4 Business Rates

1.4.1 It is expected that, in due course, alongside the Fair Funding Review, reform to the Business Rates Retention Scheme will be under consideration. Nothing has yet been announced affecting 2024/25.

- 1.4.2 Following the development of Panattoni Park on the former Aylesford Newsprint site the Council was re-admitted to the Kent Business Rates Pool from April 2023. This means that the Council is able to retain a higher proportion of receipts which exceed the Governments baseline, which for 2024/25 has been provisionally set at £2.509m.
- 1.4.3 For budgeting purposes business rates income is expected to exceed the business rates baseline in 2024/25. This is due to a combination of increased rates for Panattoni Park and some accounting adjustments for appeals. 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 £3.65m **above** the Governments baseline, together with a growth fund element in the sum of circa £681,750 to be spent in liaison with Kent County Council. It should be noted that the accounting adjustment for appeals will not affect the ongoing income from Business Rates.

1.5 Revenue Estimates 2024/25

- 1.5.1 As mentioned in the Foreword, the draft Revenue Estimates for 2024/25 were presented to the Overview and Scrutiny Committee on 25 January. 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.
- 1.5.2 Members of the Overview and Scrutiny Committee noted within the 2024/25 Estimate the following additional reserve contributions totalling £4.495m to support the Council's key priorities within the Corporate Strategy (1.2):
- 1) Creation of a new Temporary Accommodation reserve in the sum of £1.3m;
 - 2) Transfer of £1.85m to the Regeneration of Tonbridge reserve (including replacement of Angel Centre);
 - 3) Transfer of £0.5m to Climate change reserve;
 - 4) Transfer of £0.5m to Transformation reserve; and
 - 5) Transfer of £0.345m to Local Plan reserve.
- 1.5.3 Late adjustments made to the draft Revenue Estimates which were published for the meeting of the Overview and Scrutiny Committee are detailed in the table below.

	Revised Estimate 2023/24 £	Original Estimate 2024/25 £
Summary Total reported to Overview and Scrutiny Committee on 25 January 2024 prior to contributions to or from General Revenue Reserve	10,980,371	11,791,114
Adjustments to Business Rates income	(34,103)	(163,585)
Adjustments to Collection Fund Surpluses		(154,999)
Additional IT Storage Capacity	8,500	8,500
Staffing Establishment Changes following General Purposes Committee 24 th January 2024		97,950
Core establishment costs following consideration of pay award at General Purposes Committee 24 th January 2024 (Net additional cost)		70,000
Project Management support (Agile)		77,100
Changes to Earmarked Reserve Movement		
- Budget Stabilisation	(8,500)	(85,600)
- Transformation		31,000
Current Summary Total	10,946,268	11,671,480

1.5.4 Cabinet is accordingly **RECOMMENDED** to endorse the Revenue Estimates as presented to the Overview and Scrutiny Committee earlier in the cycle, together with the earmarked reserve contributions as set out at paragraph 1.5.2 above; and subsequent adjustments detailed in the table at paragraph 1.5.3 above and recommend to Council that they be adopted.

1.6 Fees and Charges

1.6.1 Proposals in respect of fees and charges for the year 2024/25 considered and approved by the Scrutiny Select Committees and the Licensing and Appeals Committee over recent months have been reflected in the Budget.

1.7 Capital Plan

1.7.1 The outcome of the Capital Plan Review process was considered by the Overview and Scrutiny Committee on 25 January.

1.7.2 Members are aware of the difficult financial landscape in previous years and therefore the ability of the Council to invest in capital schemes. It is, however, 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.

1.7.3 Members are 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 broad criteria are:

- to meet legislative requirements including health and safety and climate change obligations;
- funded from external resources; and
- reduce revenue expenditure and or generate income.

1.7.4 The subsequent recommendations where appropriate have regard to these criteria.

1.7.5 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. In addition, other earmarked reserves could be used to fund in full or in part appropriate capital plan schemes.

1.7.6 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 2024/25 is £1,065,000.

1.7.7 There remains 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. The annual capital allowance is currently set at £250,000. However, at its meeting on 5 December following receipt of a VAT 'windfall', Cabinet recommended to Full Council that a further £750,000 be added to the revenue reserve for capital schemes in 2023/24 for use in later years to allow additional approved schemes to proceed. It is proposed that the capital allowance will go back to its £250,000 in due course.

1.7.8 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.

1.7.9 The Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers, with one amendment relating to the evaluation of CP35 (Upper Castle Field) reflecting that this was 'subject to the decision of Council following the review of outcomes arising from the public consultation. 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, four schemes have been recommended both for Fast-Track evaluation.
- 4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]**.
- 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.

1.7.10 Details of the evaluated schemes are summarised below.

Capital / revenue consequences of evaluated schemes			
	Capital Cost	Annual revenue / renewals cost	Annex 3 Page
	£'000	£'000	
Street Scene, Leisure and Technical Services			
Food Waste Collections – Communal Properties	30	2	CP 41
Larkfield Leisure Centre – Wetside Changing Room Refurbishment	150	13	CP 33
Corporate Services			
Angel Centre - Replacement Boilers	150		CP 46
Larkfield Leisure Centre - Installation of Air Source Heat Pumps	175		CP 49
Total	505	15	

1.7.11 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.7.10 is attached at **[Annex 7]**.

1.7.12 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]**.

1.7.13 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, four schemes have been recommended 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 25 January.

1.8 Treasury Management and Annual Investment Strategy

- 1.8.1 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).
- 1.8.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice is adopted and that a number of prudential indicators are set.
- 1.8.3 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.
- 1.8.4 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 2024/25.
- 1.8.5 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.
- 1.8.6 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 2024/25.

1.8.7 A summary of the indicators appears in the table below.

TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt:					
borrowing	nil	7,000	7,000	7,000	7,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	7,000	7,000	7,000	7,000
Operational Boundary for external debt:-					
borrowing	nil	4,000	4,000	4,000	4,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	4,000	4,000	4,000	4,000
Actual external debt	nil	nil	nil	nil	nil
Upper limit for fixed interest rate exposure > 1 year at year end	nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	19,620 (35.5%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 365 days at year end	9,250 (16.7%)	60% of funds			

Maturity structure of fixed rate borrowing during 2023/24 – 2026/27	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

A new Liability Benchmark indicator was 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: 2024/25 £32.1m, 2025/26 £25.9m and 2026/27 £19.9m.

- 1.8.8 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.
- 1.8.9 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.
- 1.8.10 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements.
- 1.8.11 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%.					
	2022/23 actual	2023/24 estimated	2024/25 estimated	2025/26 estimated	2026/27 estimated	2027/28 estimated	2028/29 estimated	2029/30 estimated
	-23.95%	-14.60%	-10.26%	-10.17%	-7.53%	-5.65%	-5.00%	-5.06%
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] .					
	2022/23 actual	2023/24 estimated	2024/25 estimated	2025/26 estimated	2026/27 estimated	2027/28 estimated	2028/29 estimated	2029/30 estimated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2,623	5,073	10,208	2,140	1,819	1,971	2,329	2,352

- 1.8.12 We, therefore, **RECOMMEND** that for the financial year 2024/25 the prudential indicators listed in paragraph 1.8.7 including the new liability benchmark indicator and 1.8.11 be recommended to Council for adoption.
- 1.8.13 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 to try and match the years over which such assets benefit the local community through their useful life.
- 1.8.14 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 and capital plan approvals, this is not anticipated to be before 2029/30.

1.8.15 Members are asked to **NOTE** that for the financial year 2024/25 our *annual minimum revenue provision* is nil subject to the comment at paragraph 1.8.8.

1.9 Consultation with Non-Domestic (Business) Ratepayers

1.9.1 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 26 January 2024. ***Cabinet is advised that no comments have been received.***

1.10 Medium Term Financial Strategy Update

1.10.1 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.

1.10.2 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.

1.10.3 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.

1.10.4 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.

1.10.5 The budget for 2024/25 is, naturally, the starting point for updating the MTFs. Referring to paragraph 1.5.3, Members will note that the Summary Total for the 2024/25 Estimates is £19,921,450 and is used in the budget projections in the Medium Term Financial Strategy at **[Annex 10a]**.

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

Prevailing Global Economic Conditions

1.10.7 The impact of 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.

As a result of the current adverse economic conditions including the high cost of energy the Tonbridge and Malling Leisure Trust required financial support from the Council in 2023/24. That support was estimated to be in the region of £750,000. For financial planning purposes it has been assumed to be a reduced level of support being £410,000 will be required in 2024/25 to be funded from the Budget Stabilisation Reserve. Over the medium term it is expected that some element of support will be required as utility prices are unlikely to return to previous levels a small amount has been reflected into the MTFs.

Government Grant Funding (Settlement Funding Assessment + NHB + Other Grants)

1.10.8 **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.

1.10.9 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 £9.49m in

2023/24 to £3.42m in 2027/28 before seeing a modest increase year on year thereafter. It should be noted that this year's Business Rate Income includes a one-off adjustment explained in paragraph 1.4.3. The overall change between 2024/25 and 2027/28 represents a cash decrease of £6.07m or 63.9%.

1.10.10 A hypothetical example of how the assumed overall government grant funding and increased business rates income of £3.42m in 2027/28 might be made up is business rates retention scheme (£2.82m) NHB/ replacement (£600,000).

Business Rates Retention Scheme

1.10.11 Reforms to the Business Rates Retention Scheme / Business Rates have assumed to take place in 2027/28, with what has been described as a Business Rates Reset. We believe that this will involve retaining a base level of Business Rates but increasing the threshold where business rates over this level can be retained.

1.10.12 For budgeting purposes business rates income is expected to exceed the business rates baseline in 2024/25. This is a result of two factors, one being the Panattoni Park and the increased Business Rates being generated, the second being a 'one-off' release of an unused appeals provision of £5m. 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 £3,675,000, together with a growth fund element in the sum of circa £686,000 to be spent in liaison with Kent County Council. Of these sums £1,297,000 and £298,000 arises from the one-off release of funds.

Council Tax Referendum Principles

1.10.13 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.

1.10.14 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.

1.10.15 For the purposes of preparing the budget papers and updating the MTFS an **increase of 3% 2024/25** has been assumed followed by the higher of 2% or £5 each year thereafter.

Pension Fund Deficit

1.10.16 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 in the region of £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

1.10.17 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. Allowance has been made in the MTFs for increased costs - but there is also an expectation that the first 'port of call' would be to revisit the specification with the aim of bringing the cost down.

Climate Change Agenda

1.10.18 Detailed Climate Change agenda related costs are not reflected in the MTFs. However, there is an earmarked reserve to fund until expended both a revenue budget and specific projects / initiatives in support of the Climate Change Strategy.

Funding Gap

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

1.10.20 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 (assuming the balance of Tranche 1 is achieved) stands at **£1,705,000**. 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 and reductions in the costs of Temporary Accommodation of £400,000 gives a figure of £2,305,000 to be found and delivered over the medium term.

1.10.21 The difficult and challenging financial outlook necessarily demands a **pressing and concerted** focus of attention. 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.

1.10.22 **[Annex 10a]** sets out the picture for the MTFs.

1.10.23 Cabinet is **RECOMMENDED** to note and endorse the updated MTFs **[Annex 10a]**.

1.11 Savings and Transformation Strategy

1.11.1 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.

1.11.2 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

1.11.3 The Council set a savings target of £500,000 to be delivered by April 2024 and to date ongoing savings / increased income in the order of £195,000 have been identified £75,000 of this is subject to member approval before the end of the current financial year (2023/24). The remaining £305,000 will be identified in the forthcoming financial year (2024/25) as recommended by Cabinet at its meeting in December 2023.

1.11.4 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 - £305,000, as mentioned above, to be achieved by April 2025.
- 2) Tranche 2 - £700,000 to be achieved by April 2026.
- 3) Tranche 3 - £700,000 to be achieved by April 2028.

1.11.5 An updated copy of the STS, recommended by Management Team, including revised outline targets and timescales for each of the themes totalling £1,705,000 can be found at **[Annex 10b]**.

1.11.6 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.**

1.11.7 Cabinet is **RECOMMENDED** to 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 1.11.4.

1.11.8 Turning back to the specific budget year 2024/25. The budget for 2024/25 includes a contribution to the general revenue reserve of £1,064,824 and a Summary of the Revenue Estimates Booklet is attached at **[Annex 11]**.

1.12 Collection Fund Adjustments

1.12.1 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.

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

- Estimate the surplus / deficit on the collection fund for 2023/24 in respect of council tax and business rates and then share this between the major precepting authorities (including ourselves) in line with the respective legislative proportions.

1.12.3 These are known as collection fund adjustments:

- The collection fund for 2023/24 as shown in the table below along with the council's share.

	Total (Surplus) / Deficit £	TMBC's Share £	Details in Annex
Council Tax	(581,907)	(81,118)	[Annex 12a]
Business Rates	(4,595,216)	(1,838,086)	[Annex 12b]

1.13 Special Expenses and Parish Council Precepts

1.13.1 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.

1.13.2 Details of the Special Expenses for 2024/25 are set out at **[Annex 13b]**. The basic amount of council tax of £215.78 plus the special expenses Band D charge, where applicable, gives the total Borough Council Band D charge for that area.

1.13.3 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).

1.13.4 The resultant published (notional) council tax at Band D for **2024/25 is £238.16**, being 3.0% higher than the published Band D council tax for 2023/24. As

Members will note, no resident will actually pay this exact amount as the Borough Council's Band D – unless it is by coincidence.

1.13.5 Cabinet is requested to **ENDORSE** the special expenses calculated in accordance with the Special Expenses Scheme and set out at **[Annex 13b]**.

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

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

1.14.1 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.

1.14.2 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.

1.14.3 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.

1.14.4 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 £1,705,000, together with the initiatives already built into the MTFS (i.e. the scaling back of office accommodation in the sum of £200,000 and reductions in the use of Temporary Accommodation of £400,000) are delivered in the timeframe assumed in the Medium Term Financial Strategy.**

1.14.5 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 delivery of the Savings and Transformation Strategy is still categorised as RED on the Strategic Risk Register and it is essential that addressing the projected funding gap and associated savings targets are progressed as a priority.

1.14.6 A schedule of the reserves held by the Council at 1 April 2023 and proposed utilisation of those reserves to 31 March 2025 is provided at **[Annex 16b]**. In

addition a profile of the projected reserve balances is provided at **[Annex 16b(ii)]**. 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 2023/24.

1.14.7 Members are **RECOMMENDED** to note and endorse the Statement **[Annex 16a]** provided by the Director of Finance and Transformation.

1.15 The Chartered Institute of Public Finance and Accountancy Financial Management Code and Financial Resilience Index

1.15.1 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.

1.15.2 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.

1.15.3 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.

1.15.4 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.

1.15.5 A review of the Financial Resilience Index relating to data from financial year 2021/22 identified no particular concerns. A new release of the Financial Resilience Index relating to data for the financial year 2022/23 is expected imminently but at the time of writing has not been received. Once it is received it

will be published as a supplement to the agenda. A copy of the Index relating to 2021/22 is attached at **[Annex 16c]** for information.

1.15.6 A short paper from CIPFA entitled 'The importance of financial resilience' is also attached at **[Annex 16d]** for Members' information.

1.16 Calculation of Borough Council's Tax Requirement

1.16.1 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 1.3).
- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.16.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.11.7, 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.

1.16.3 Cabinet is therefore **RECOMMENDED** to note the Calculation of the Borough Council's council tax requirement at **[Annex 17]**.

1.17 Legal Implications

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

1.17.2 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.

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

1.18 Financial and Value for Money Considerations

1.18.1 The uncertainty surrounding local government finances – the awaited outcome of the Fair Funding Review, what is to happen to NHB and other grant income, and business rates reforms makes financial planning that much more difficult.

1.18.2 The 2024/25 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?

1.18.3 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.

1.19 Risk Assessment

1.19.1 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.

1.19.2 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.

1.19.3 The pandemic had a significant adverse impact on the Council's finances and dependent on the extent and speed of the recovery further widen the funding gap.

1.19.4 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.

- 1.19.5 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.
- 1.19.6 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 1.10.17, however, it is important to note that forward planning already assumes a 'scaled-back' specification.
- 1.19.7 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.
- 1.19.8 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.
- 1.19.9 It is expected that the pension fund deficit will be recovered within the 10-year period of this MTFS. 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 MTFS, we are working towards a position where the pension fund is overfunded so that there is an element of headroom.
- 1.19.10 Members are reminded that there are factors not reflected in the MTFS, e.g. the cost of borrowing for new capital plan schemes when and if required.
- 1.19.11 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.

1.20 Equality Impact Assessment

- 1.20.1 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.

1.21 Policy Considerations

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

1.22 Recommendations

- 1.22.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the Revenue Estimates as presented to the Overview and Scrutiny Committee earlier in the cycle, together with the earmarked reserve contributions as set out at paragraph 1.5.2 above; and subsequent adjustments detailed in the table at paragraph 1.5.3 above and recommend to Council that they be adopted.

- 2) Update the Capital Plan as set out in paragraph 1.7.13 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 1.8.7 including the new liability benchmark indicator and 1.8.11, and recommend to Council that they be adopted.
- 5) Note that for the financial year 2024/54 our *annual minimum revenue provision* is nil subject to the comment at paragraph 1.8.8.
- 6) Note and endorse the updated MTF5 **[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 1.11.4.
- 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).
- 10) Note the Calculation of the Borough Council's council tax requirement at **[Annex 17]**.

Background papers:

Nil

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