

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

12 February 2015

Report of the Chief Executive, Director of Finance and Transformation, Leader of the Council and Cabinet Member for Finance, Innovation and Property

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET

Further to reports to the meeting of the Finance, Innovation and Property Advisory Board and 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 2015/16.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 17 February, Members will determine both the Budget and the level of council tax for 2015/16. The detailed Estimates for 2015/16 prepared by your Officers, having regard to the guidance given by Cabinet, have been carefully considered by the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee. Details are set out at paragraph 1.3 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 2015/16; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy covering a ten-year period. Financial decisions made in respect of the year 2015/16 will have an impact across the Medium Term Financial Strategy and upon the savings targets 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'.
- 1.1.3 Members will no doubt be aware of the Government's proposal to freeze council tax in 2015/16. To this end the Government announced that it will provide funding equivalent to a **1.0%** increase in council tax in 2015/16 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**. It remains the case, of course, that where the proposed council tax increase is more than 1% the Council will be worse off financially if it was to accept the freeze grant.

- 1.1.4 Also, 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. Members may recall as part of the 2013 Spending Review we were advised that **the threshold was to be set at 2% or more for 2015/16** and this was reaffirmed on 18 December 2014.
- 1.1.5 **It is for Members at both Cabinet and Full Council to weigh up the merits of accepting the government grant and to freeze council tax as opposed to an increase of 1.99%. Cabinet's role is to provide guidance or recommendations to the Full Council as to the way forward.**
- 1.1.6 It must be remembered that, **in either case**, the Council continues to face a significant financial challenge in respect of identifying and implementing savings over the coming years. As Members are aware, we set a target of achieving savings of £200,000 by 31 March 2015, and this has been achieved. Beyond March 2015 it is estimated **further savings** of circa £1.4m (and potentially a greater sum) need to be identified and implemented over the medium term should a council tax increase of 1.99% be approved; alternatively those savings will increase by a further £125,000 should the 'freeze' grant be accepted and the council tax frozen.
- 1.1.7 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members' attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:
- Local Government Finance Settlement
 - Revenue Estimates 2015/16
 - Fees and Charges
 - Capital Plan
 - Treasury Management Strategy Statement and Annual Investment Strategy
 - Consultation with Non-Domestic Ratepayers
 - Update of Medium Term Financial Strategy
 - Collection Fund Adjustments
 - Parish Councils
 - Robustness of Estimates / Adequacy of Reserves
 - Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

- 1.2.1 On 18 December 2014, provisional Settlement Funding Assessments for 2015/16 were published. The final local government finance settlement was published on 3 February. Ordinarily, indicative figures for the following year are also made available, but with the General Election in May, 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.
- 1.2.2 Our Settlement Funding Assessment for 2015/16 is £3,678,599. This represents a cash decrease of £678,519 or 15.6% when compared to the equivalent figure of £4,357,118 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.
- 1.2.3 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	2,049,945	2,089,115	39,170	1.9
Revenue Support Grant	2,307,173	1,589,484	(717,689)	(31.1)
Settlement Funding Assessment	4,357,118	3,678,599	(678,519)	(15.6)
New Homes Bonus	2,395,874	3,101,153	705,279	29.4
Total Grant Funding	6,752,992	6,779,752	26,760	0.4

- 1.2.4 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.
- 1.2.5 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.

- 1.2.6 A comparison of our Settlement Funding Assessment for 2015/16 with those of other Kent district councils is provided at **[Annex 1a]**.
- 1.2.7 Attached at **[Annex 1b]** for Members' information is a copy of the *Referendums Principles* setting out 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.

1.3 Revenue Estimates 2015/16

- 1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2015/16 were presented to the meetings of the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Advisory Board and 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 these meetings, the Revenue Estimates as presented were endorsed.
- 1.3.2 Adjustments made to the Revenue Estimates presented to the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee are detailed in the table below. The reason for the increase in the Business Rates Retention Scheme Reserve adjustment is that the deficit in 2013/14 was higher than that estimated to be recovered in 2014/15 which then forms part of the 2015/16 estimate. Also, from a technical point of view whether the Council makes a decision to accept the 'freeze' grant or not affects the 'Summary Total' for the 2015/16 Estimates and for completeness the table below illustrates the position for both scenarios. Members' attention is returned to the issue of the council tax freeze later in the report.

	Revised Estimate 2014/15 £	Original Estimate 2015/16 (no freeze) £	Original Estimate 2015/16 (freeze) £
Summary Total reported to Finance, Innovation and Property Advisory Board on 7 January	13,360,350	12,396,350	12,396,350
Use of Business Rates Retention Scheme Reserve to offset the deficit shown below the line	(400,000)	(1,100,000)	(1,100,000)
Council Tax Freeze Grant 2015/16			(91,050)
Current Summary Total	12,960,350	11,296,350	11,205,300

1.4 Fees and Charges

- 1.4.1 During the course of this budget cycle Members have, via the appropriate Advisory Boards, made recommendations regarding the levels of fees and charges to be implemented. As Members have been advised previously, whilst drafting these Estimates, it had been assumed that the recommendations made would be agreed by the Cabinet.
- 1.4.2 At the meeting of Cabinet on 3 February, consideration of the fees and charges recommended via the appropriate Advisory Boards were deferred to this meeting for approval alongside the Budget. A summary of these recommendations together with the resolution of Licensing and Appeals Committee in respect of licensing fees is set out at **[Annex 2]**.
- 1.4.3 Members are accordingly **RECOMMENDED** to endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards.

1.5 Capital Plan

- 1.5.1 The Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 7 January followed by the Overview and Scrutiny Committee on 27 January.
- 1.5.2 Members' attention was drawn to the significant financial challenge faced by the Council and the impact this has on the ability of the Council to invest in capital schemes. It was, however, also acknowledged that some capital projects can have a beneficial effect on the revenue position by either generating additional or new income, or alternatively producing cost savings in due course.
- 1.5.3 Members were reminded of 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). The criteria are:
- to meet legislative requirements including health and safety obligations;
 - funded from external resources; and
 - generate income or reduce revenue expenditure.
- 1.5.4 The subsequent recommendations, where appropriate, have regard to these criteria.
- 1.5.5 Members were also reminded that the revenue reserve for capital schemes provided the main source of funding for existing and any new schemes that are introduced into the Capital Plan.
- 1.5.6 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.

1.5.7 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 2019/20 the Council will need to borrow to fund such expenditure.

1.5.8 The Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee endorsed the recommendations as detailed in the papers. The recommendations were:

- 1) Cabinet be asked to endorse the Capital Plan (List A) position as shown in Annex 2 of the Capital Plan Booklet 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 including one for Fast-Track evaluation.
- 4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]** noting:

In respect of the Tonbridge Town Lock scheme this is an additional funding requirement of £100,000 to that currently reflected in the Capital Plan to be met from a pending developer contribution and in the interim from the Council's own resources (see update at paragraph 1.5.9).

The Tonbridge School Athletics Track Improvements scheme is expected to be progressed in the year 2018/19 subject to the identification of developer contributions / external grant sources.

In respect of the LLC Health Suite Refurbishment scheme this is an additional funding requirement of £60,000 to that currently reflected in the Capital Plan.

- 5) Cabinet be asked to endorse the Capital Strategy at Annex 5 for adoption by Council and publication on the Council's website.

1.5.9 Members are asked to note the following **updates** post the meeting of the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee.

- 1) The tenders in respect of the Tonbridge Town Lock scheme have recently been received but require much greater evaluation, in conjunction with the Environment Agency, due to a number of complexities. As a result, a

detailed project appraisal and assessment of the tenders is being carried out and the outcome of this exercise will be the subject of a separate part 2 report to Members in March. We suggest that, rather than making unconfirmed adjustments to the budget now, we review this in March when we have greater clarity.

- 2) The Overview and Scrutiny Committee on 27 January endorsed the recommendations set out in the report detailing the outcome of the review of the Capital Renewals process. The Capital Plan has been adjusted accordingly.

1.5.10 The estimated annual revenue costs of the evaluated List C schemes and those existing schemes where there is an additional funding requirement are given in the table below (excluding Tonbridge Town Lock). The amount and timing of any revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels which generate changes to running costs or income. It can be seen that if the schemes are progressed as recommended the estimated revenue consequence is £11,500 in 2015/16 and £19,950 in subsequent years.

Scheme	Capital Cost £	Revenue Impact	
		2015/16 £	2016/17 £
Car Parking Action Plan Phase 9	20,000	1,000	1,000
LLC Installation of UV Pool Disinfectant Plant	150,000	7,500	10,650
Tonbridge School Athletics Track Improvements	150,000	-	-
LLC Health Suite Refurbishment	60,000	3,000	3,000
IT Initiatives: Revenues and Benefits Document Management (Fast-Track)	60,000	-	5,300
Total	440,000	11,500	19,950

1.5.11 An updated summary of the Capital Plan incorporating both the updates detailed at paragraph 1.5.9 and the schemes listed in paragraph 1.5.10 is attached at **[Annex 7]**.

1.5.12 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]**.

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

- 1) Cabinet approves the position of the existing Capital Plan (List A) as summarised in **[Annex 3]**.
- 2) Cabinet approves that the schemes as detailed in **[Annex 4]** are added to List C or deleted from List C.

- 3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year including one for Fast-Track evaluation.
- 4) Cabinet approves the transfer of the schemes detailed in **[Annex 6]** noting:

The Tonbridge School Athletics Track Improvements scheme is expected to be progressed in the year 2018/19 subject to the identification of developer contributions / external grant sources.

In respect of the LLC Health Suite Refurbishment scheme this is an additional funding requirement of £60,000 to that currently reflected in the Capital Plan.
- 5) Cabinet approves the updated Capital Plan (List A) as summarised in **[Annex 7]**.
- 6) Cabinet endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 7 January and the Overview and Scrutiny Committee on 27 January.

1.6 Treasury Management Strategy Statement and Annual Investment Strategy

- 1.6.1 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).
- 1.6.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice (the Code) is adopted and that a number of prudential indicators are set. Council adopted the December 2009 edition of the Code of Practice on Treasury Management on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16.
- 1.6.3 The approval of the Strategy and determination of the prudential indicators has to be made by the body setting the Council Tax, i.e. Full Council, as do amendments to either the Strategy or indicators during the year.
- 1.6.4 The CIPFA Prudential Code for Capital Finance in Local Authorities under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set as follows:
 - 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 364 days.
- 8) The maturity structure for new fixed rate borrowing during 2015/16.

A summary of the indicators appears in the table below:

Treasury Management Prudential Indicators					
Prudential Indicator	2013/14 Actual £'000	2014/15 Revised Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	2,000	2,000	2,000	2,000
The authorised limit for external debt	NIL	5,000	5,000	5,000	5,000
Actual external debt	NIL	NIL	NIL	NIL	NIL
The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%			
The upper limit for variable rate exposure < 1 year at year end	16,309 86.1%	It is anticipated that the net exposure will range between 40% to 100%			
The upper limit for total principal sums invested for over 364 days at year end	2,234 11.8%	60% of core funds			
The maturity structure for new fixed rate borrowing during 2015/16		Upper Limit		Lower Limit	
Under 12 months		100%		NIL	
Over 12 months		NIL		NIL	

1.6.5 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.

1.6.6 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. Experience suggests that an operational boundary of £2.0m will be sufficient to cover all likely contingencies.

- 1.6.7 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements. A limit of £5.0m is estimated to be sufficient to cover such eventualities.
- 1.6.8 The other prudential indicators which 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%.					
No freeze							
2013/14 actual	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated	2019/20 estimated	2020/21 estimated
-1.41%	-1.30%	-1.48%	-2.18%	-2.68%	-3.57%	-4.50%	-4.60%
Freeze							
2013/14 actual	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated	2019/20 estimated	2020/21 estimated
-1.41%	-1.30%	-1.49%	-2.18%	-2.69%	-3.60%	-4.55%	-4.66%
2.	Estimates of the incremental impact of capital investment decisions on the Council Tax	The revenue impact of capital schemes added to the capital plan on the Council Tax Band D equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] .					
Total		2015/16 estimated £	2016/17 estimated £	2017/18 estimated £	2018/19 estimated £	2019/20 estimated £	2020/21 estimated £
		0.24	0.18	0.00	0.00	0.00	0.00
3.	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] .					
2013/14 actual £'000	2014/15 estimated £'000	2015/16 estimated £'000	2016/17 estimated £'000	2017/18 estimated £'000	2018/19 estimated £'000	2019/20 estimated £'000	2020/21 estimated £'000
1,744	3,461	2,942	2,411	1,851	1,730	1,553	1,676

- 1.6.9 We, therefore, **RECOMMEND** that for the financial year 2015/16 the prudential indicators listed in paragraphs 1.6.4 and 1.6.8 be recommended to Council for adoption.
- 1.6.10 A local authority has a statutory duty to “*determine for the current financial year an amount of minimum revenue provision that it considers to be prudent*” in relation to its capital expenditure. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try and match the years over which such assets benefit the local community through their useful life.

- 1.6.11 The spreading of these costs is through what is termed an *annual minimum revenue provision*. As the Council is debt free and, at least in the short term, does not expect to borrow to support its capital programme the minimum revenue provision is nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing. Based on current estimates, this is not anticipated to be until the financial year 2019/20.
- 1.6.12 Members are asked to **NOTE** that for the financial year 2015/16 our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 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 16 January 2015. ***Cabinet is advised that no comments have been received.***

1.8 Update of Medium Term Financial Strategy

- 1.8.1 To recap, the Council's Medium Term Financial Strategy 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 Medium Term Financial Strategy affords the opportunity to take a measured and structured approach to budget issues rather than a "knee jerk" reaction. The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.
- 1.8.2 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.
- 1.8.3 Members are fully aware that the Council continues to face a significant financial challenge as a result of the ongoing budget deficit reduction programme which has resulted in a reduction in the financial support given to local government. We believe our Medium Term Financial Strategy 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 'funding gap' will influence the timescales we afford ourselves to address the problem.

- 1.8.4 As Members are aware, the Management Team have committed to bringing forward a draft Transformation Strategy to assist in delivering the savings needed. As previously outlined, part of that Strategy will involve wider thinking on reforms including shared service delivery, reviewing business processes and, in doing so, learn from others.
- 1.8.5 The Medium Term Financial Strategy sets out the high level objectives the Council wishes to fulfil over the agreed time span and which 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.
- 1.8.6 Bearing in mind the fact that, during the 10-year period of the MTFs, it is expected that the Council will have exhausted its Capital Reserves, Members may wish to adjust the final high level objective set out above to read:

*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 (set at £320,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.*

Subject to this suggested amendment, Members are asked to reaffirm the high level objectives of the MTFs set out in paragraph 1.8.5 above.

- 1.8.7 The budget for 2015/16 is, naturally, the starting point for updating the Medium Term Financial Strategy. Referring to paragraph 1.3.2 Members will note that the Summary Total for the 2014/15 Revised Estimates is £12,960,350; and for the 2015/16 Estimates is £11,296,350 (no freeze) and £11,205,300 (freeze) and are used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a]** and **[Annex 11b]** respectively.

1.8.8 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.

1.8.9 Members will recall we set ourselves a savings target this year of £200,000 and I am extremely pleased to report 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.

1.8.10 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.***

1.8.11 As a result we have not only met this year’s savings target, but began to make ‘inroads’ into the next savings tranche, although of course a significant financial challenge remains.

1.8.12 We have already alluded, within this report and previous reports, to both the offer of a council tax freeze grant and the ‘trigger point’ for a local referendum.

1.8.13 In respect of the latter, 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.

1.8.14 The Government set the level of council tax increase for 2015/16 at which it intends to require the local authority to seek approval of their electorate via a local referendum at 2.0% or more (including levies).

1.8.15 Members are aware of the Government's proposal to assist councils in freezing council tax in 2015/16. To this end the Government will provide funding equivalent to a **1.0%** increase in council tax in 2015/16 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**. It remains the case of course that where the proposed council tax increase is more than 1% the Council will be worse off financially if it was to accept the freeze grant.

1.8.16 There are clearly 'pros' and 'cons' of levying a small increase in council tax (option 1) and similarly accepting the freeze grant (option 2). Some of the headline statistics for the two 'options' are as follows:

	Option 1 (Increase 1.99%)	Option 2 (Freeze)
<u>2015/16</u>		
Council Tax Band D	£187.51	£183.85
Increase per annum	£3.66	£0
Increase per week	7 pence	0 pence
Anticipated Council Tax Income	£8,794,000	£8,623,000 excl freeze grant
<u>MTFS</u>		
Total Base budget savings required:	£1.4m	£1.525m
The savings could be broken down into tranches. For example:		
First tranche by 1 April 2016	£200,000	£325,000
Second tranche by 1 April 2017	£700,000	£700,000
Third tranche by 1 April 2018	£500,000	£500,000
Reserve balance at end of period	£3.216m	£3.324m

1.8.17 Based on latest projections it can be seen from the above that:

- If Members were minded to **increase the council tax by 1.99%**, the 'funding gap' (savings target) is circa £1.4m and as in previous iterations of the MTFS we could breakdown the savings target into tranches. For example, the savings target could be broken down into three tranches (tranche one £200,000, tranche two £700,000 and tranche three £500,000) to be achieved by 2016/17, 2017/18 and 2018/19 respectively.
- If Members were minded **to implement the 'freeze'** and accept the grant the 'funding gap' (savings target) is circa £1.525m. The savings target could again be broken down into three tranches (tranche one £325,000,

tranche two £700,000 and tranche three £500,000) to be achieved by 2016/17, 2017/18 and 2018/19 respectively.

- 1.8.18 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 £125,000 to the overall savings we have to make. **[Annexes 11a and 11b]** set out the picture for the Medium Term Financial Strategy. A graphical representation of the implications is given at **[Annex 11c]**.
- 1.8.19 The sustainability of the New Homes Bonus in its current form remains a significant concern and in arriving at this assessment, we 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**. 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**.
- 1.8.20 In addition, 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 £156,700 in 2015/16**. This figure increases each year in line with inflation.
- 1.8.21 Members will appreciate from just these two issues that there is so much uncertainty that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.8.22 Indeed, commentators, following the Autumn Statement, have suggested that spending cuts over the three years 2016/17 to 2018/19 will be '**colossal**' if a budget surplus is to be achieved by the end of that period. The question is, what is 'colossal' and what does that mean for TMBC?
- 1.8.23 For medium term financial planning purposes we have assumed over the three years 2016/17 to 2018/19 **our overall government grant funding will decrease by some £2.5m** (from £6.8m to £4.3m) rising by inflation thereafter. The Director of Finance and Transformation is keen to stress (as mentioned at paragraph 1.8.19) that **depending on what happens to NHB, a further savings tranche of £700,000 could be required; and further savings still if NHB was to be withdrawn and not replaced**.
- 1.8.24 For this reason, we will need to return to, and review, the projected funding gap following the Spending Review 2015 due to take place shortly after the General Election which hopefully will, if only generally, tell us more about the financial landscape for local government beyond 2015/16.

1.8.25 Turning back to the specific budget year 2015/16, a Summary of the Revenue Estimates Booklet for both a council tax increase of 1.99% and a council tax freeze are attached at **[Annex 12a]** and **[Annex 12b]** respectively. The budget for 2015/16 includes a contribution **to** the general revenue reserve of £73,550 (council tax increase 1.99%) and a contribution **from** the general revenue reserve of £7,050 (council tax freeze).

1.8.26 Cabinet is **RECOMMENDED** to:

- 1) Reaffirm the high level objectives of the MTFs, taking on board the amendment set out in paragraph 1.8.6 adding the words “*Subject to there being sufficient resources within the capital reserve*” to the final objective.
- 2) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.99% and council tax freeze respectively including the approach adopted in respect of NHB, business rates income and further cuts to government grant funding.
- 3) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2015/16.

1.9 Collection Fund Adjustments

1.9.1 As the billing authority for the area, this Council has responsibility for maintaining the ‘collection fund’ accounts into which business rates and council tax are paid.

1.9.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to:

- estimate the surplus / deficit on the collection fund in respect of council tax and then share this between the major precepting authorities (including ourselves); and
- estimate the surplus / deficit on the collection fund in respect of business rates and then share this between the relevant parties in accordance with the Business Rates Retention scheme.

1.9.3 These are known as collection fund adjustments:

- The **surplus** on the collection fund in respect of council tax is estimated to be £614,377, of which our share is £92,290 **[Annex 13a]**.
- The **deficit** on the collection fund in respect of business rates is estimated to be £2,988,226, of which our share is £1,195,290 **[Annex 13b]**. After taking into account that part of the deficit relating to 2013/14 and other adjustments within the Business Rates Retention scheme the shortfall

against the 2014/15 baseline is in the order of £224,000 of which £153,000 is to be met by the Council.

1.10 Parish Councils

- 1.10.1 For completeness, Cabinet is reminded that the Borough Council's expenditure is inclusive of the payments to Parish Councils under the Borough Council's Scheme of Financial Arrangements. Details of the Financial Arrangements for 2015/16 are set out at **[Annex 14]** for Members' information.
- 1.10.2 Also, the Parish Councils were notified on 5 December of their grant allocation in respect of the council tax support scheme. This funding now forms part of the overall Settlement and is not separately identified. As a result the funding available was increased by 1.3% (from £171,726 to £173,958) representing the increase in the Borough Council's Settlement including New Homes Bonus in the previous year. This is consistent with the approach adopted in respect of allocations under the Scheme of Financial Arrangements with Parish Councils.
- 1.10.3 In addition, the precepts of the Parish Councils are the Special Area expenses of the Borough Council for the purpose of setting the Council Tax. Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.11 Robustness of Estimates / Adequacy of Reserves

- 1.11.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annexes 16a and 16b]** sets out the Council's projected revenue reserve balances based on a council tax increase of 1.99% and council tax freeze respectively.
- 1.11.2 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.
- 1.11.3 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.
- 1.11.4 The Director of Finance and Transformation has stressed that the absolute detail of the Statement varies depending upon whether the Council opts to take the council tax freeze grant, or alternatively increases council tax and thereby provides a greater source of income for future years.
- 1.11.5 That said, the Director of Finance and Transformation advises that, in both scenarios, she is satisfied as to the Robustness of the Estimates and the Adequacy of Reserves on the understanding that the savings target each scenario would produce is fully honoured and delivered. Clearly, as has been outlined

above, the savings challenge increases should the Council opt to accept the council tax freeze grant.

1.11.6 A Statement covering the points above is appended at **[Annex 17]**.

1.11.7 A schedule of the reserves held by the Council at the 1 April 2014 and proposed utilisation of those reserves to the 31 March 2016 is provided for both a council tax increase of 1.99% and council tax freeze at **[Annex 17]** Table A and B respectively. 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 in the Tables and will revisit the position as part of the closedown process for 2014/15.

1.11.8 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.

1.11.9 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance and Transformation.

1.12 Calculation of Borough Council's Tax Requirement

1.12.1 The Council is required to calculate:

- Its aggregate expenditure which, for this purpose, includes our share of any Collection Fund deficit and the Parish Council precepts.
- Its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).
- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.12.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.26, the calculation for both a council tax increase of 1.99% and council tax freeze is set out at **[Annex 18a and 18b]** respectively for information. It should be noted that, for this purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

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 guidance on assumptions obtained where appropriate.

1.15.2 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool the Strategy needs to be reviewed and updated at least annually and in the current climate regularly reviewed by Management Team. In addition, not identifying and implementing the requisite savings will put at risk the integrity of the Medium Term Financial Strategy.

1.15.3 There is so much uncertainty and volatility particularly in some of our major sources of income that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.

1.15.4 Where a scheme is to be funded, in full or in part, from a pending developer contribution and in the interim from the Council's own resources there is a risk of an unbudgeted commitment if that developer contribution is not forthcoming.

1.15.5 Failure to endorse a satisfactory Capital Strategy may lead to a capital programme which does not fully support the Council's Key Priorities and Improvement Actions.

1.15.6 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 Summary of Recommendations

1.17.1 Cabinet is **RECOMMENDED** to:

- 1) Endorse the fees and charges set out in **[Annex 2]** as recommended by the appropriate Advisory Boards.
- 2) Update the Capital Plan as set out in paragraph 1.5.13 and recommend that Council adopt the Capital Plan accordingly.
- 3) Endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 7 January and the Overview and Scrutiny Committee on 27 January and recommend to Council it be adopted.
- 4) Endorse the prudential indicators listed in paragraphs 1.6.4 and 1.6.8 and recommend to Council that they be adopted.
- 5) Note that for the financial year 2015/16 the Council's Minimum Revenue Provision as set out at paragraph 1.6.11 is nil and recommend to Council accordingly.
- 6) Reaffirm the high level objectives of the MTFs, taking on board the amendment set out in paragraph 1.8.6 adding the words "*Subject to there being sufficient resources within the capital reserve*" to the final objective.
- 7) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.99% and council tax freeze respectively including the approach adopted in respect of NHB, business rates income and further cuts to government grant funding.
- 8) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2015/16.
- 9) Note and endorse the Statement provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves.

Background papers:

Nil

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