

# Overview and Scrutiny

11 December 2017

Is the final decision on the recommendations in this report to be made at this meeting?

No

## Draft Budget 2018/19 and Medium Term Financial Strategy Update

<b>Final Decision-Maker</b>	Cabinet
<b>Portfolio Holder(s)</b>	Councillor David Reilly, Portfolio Holder for Finance and Governance
<b>Lead Director</b>	Lee Colyer, Director of Finance, Policy and Development
<b>Head of Service</b>	Jane Fineman, Head of Finance and Procurement
<b>Lead Officer/Author</b>	Lee Colyer, Director of Finance, Policy and Development
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	All

### This report makes the following recommendation to the final decision-maker:

1. That Cabinet comments on the draft budget and identifies any areas that they believe need to be strengthened or where there are omissions; and
2. That, subject to the above recommendation, the draft budget be agreed for public consultation.

### This report relates to the following Five Year Plan Key Objectives:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

The Council's budget involves the allocation of financial resources to deliver the Council's Key Objectives.

### Timetable

<b>Meeting</b>	<b>Date</b>
Management Board	8 November 2017 (verbal update)
Discussion with Portfolio Holder	TBC
Finance & Governance Cabinet Advisory Board	14 November 2017
Cabinet	7 December 2017
Overview and Scrutiny	11 December 2017

# Draft Budget 2018/19 and Medium Term Financial Strategy Update

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

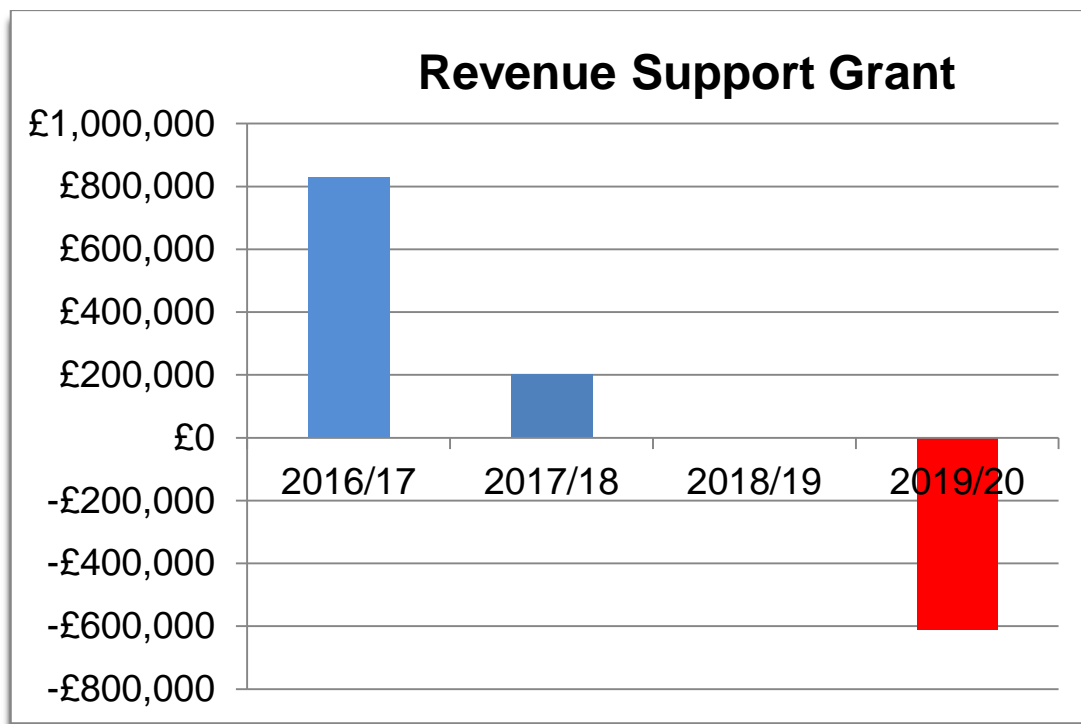
- 1.1 This report outlines the assumptions that have been built into the draft budget for 2018/19.
  - 1.2 The draft budget still has a funding gap of £149,000 which is an improvement of £120,000 on the previously reported projection. However, if left unmanaged this would produce a combined deficit of £1.6 million by 2022/23, which would need to be funded from new income, further cost reductions or from reserves.
  - 1.3 For 2018/19 Revenue Support Grant for this Council is expected to be cut from £200,000 to zero. This will bring the total reduction in central government support for local services to £4.6 million since 2010.
  - 1.4 The draft budget is a projection and following approval it will be published on to the Council's consultation portal.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 Cabinet received the first report leading to the setting of the 2018/19 budget at the meeting on 3 August 2017 entitled Budget Projection and Strategy which had also been considered by the Finance & Governance Cabinet Advisory Board. This was followed by a Budget Update report on 26 October 2017.

### **Four-Year Settlement Offering**

- 2.2 On 12 October 2016 Full Council agreed to accept the Government's offer of a four-year funding settlement and submitted the required efficiency plan. There are still a number of uncertainties surrounding the four-year offer but the Revenue Support Grant element published for this Council is shown below.



### Autumn Budget Statement

- 2.3 The Government's Autumn Budget Statement is scheduled for 22 November 2017. A verbal updated will be provided of the key implications for Local Government.

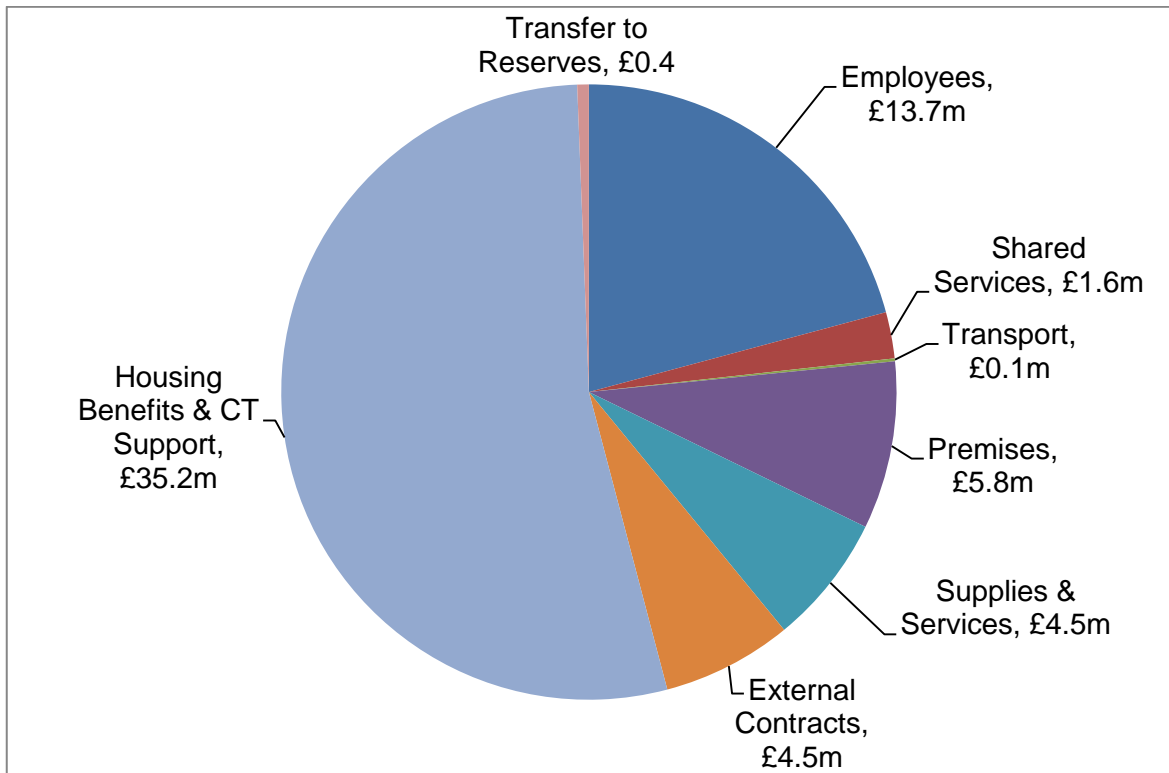
### Pilot for 100 per cent Localisation of Business Rates

- 2.4 On 27 October 2017 all local authorities within Kent submitted a bid proposal to become a pilot for the retention of 100 per cent localisation of business rate growth for 2018/19.
- 2.5 If successful then this would result in nearly £25 million of growth proceeds that are currently returned to HM Treasury being retained within Kent to support, financial stability, growth and infrastructure. The financial benefits for this Council would be to retain an extra £600,000 of business rate growth and the creation of a West Kent Infrastructure Fund of £1,055,000. An announcement of those areas that have been selected is expected at the time of the Local Government Finance Settlement towards the end of December 2017. If the bid is unsuccessful then the existing Kent Business Rates pool will continue to operate.

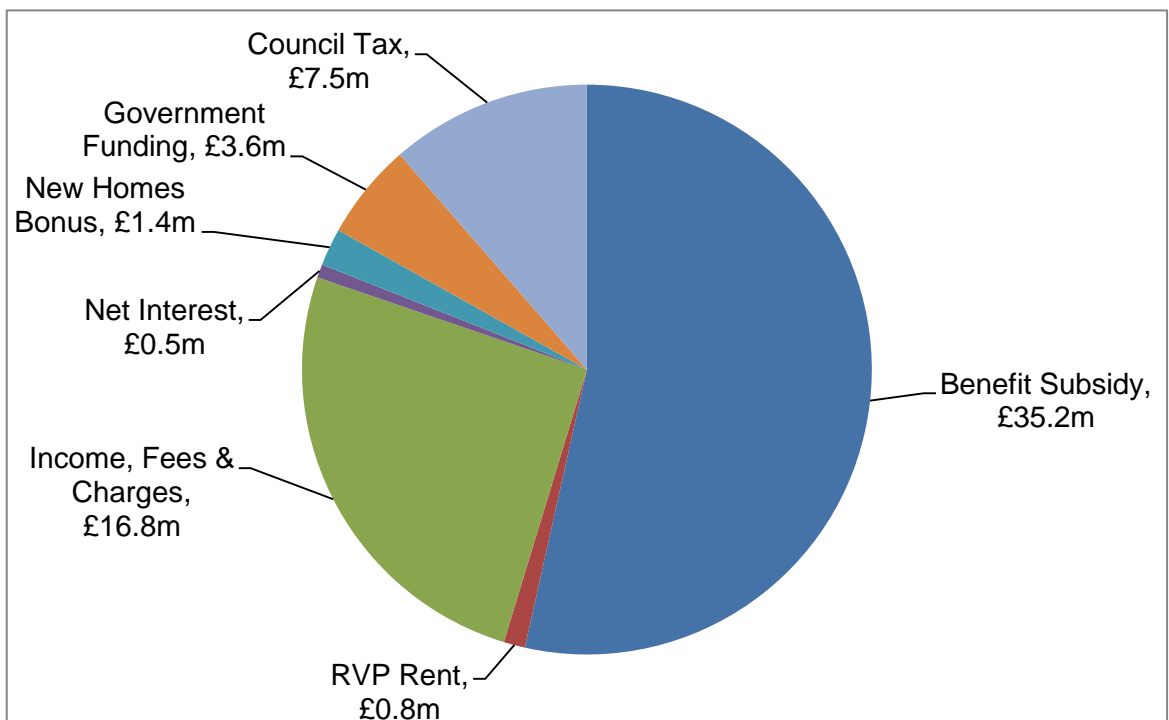
### Budget Breakdown

- 2.6 The Council provides a diverse range of services across the Borough which currently cost £65.8 million. The services are provided either by contractors, through partnership with other councils or by directly employing staff. As at 30 June 2017 the Council employed 300 FTEs (full time equivalents). The following pie charts show the current revenue expenditure and how this is funded.

### 2017/18 Revenue Expenditure



### 2017/18 Revenue Funding



A further subjective breakdown of the budget per cost centre for 2017/18 is available on the Council's website:  
[http://www.tunbridgewells.gov.uk/data/assets/pdf\\_file/0008/138779/Codebook-2017-18.pdf](http://www.tunbridgewells.gov.uk/data/assets/pdf_file/0008/138779/Codebook-2017-18.pdf)

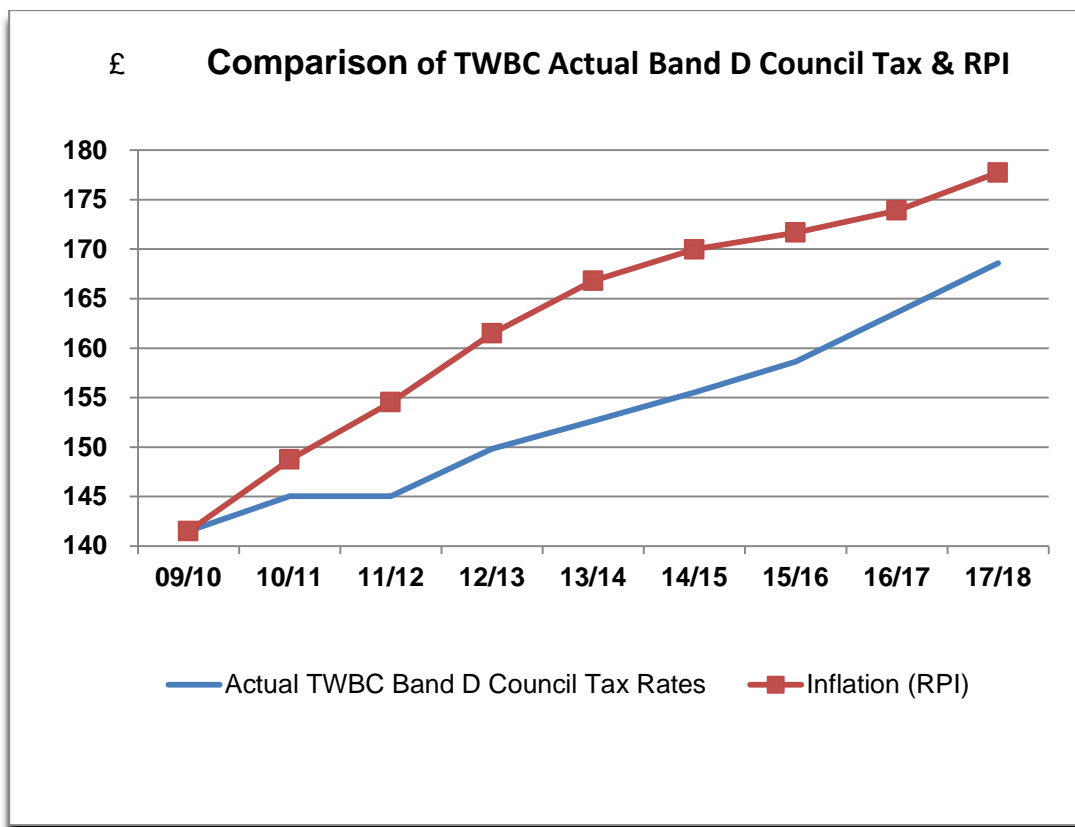
### Latest Budget Projection 2018/19

- 2.7 The latest budget projection has been developed using broad assumptions on how various types of costs and income will look when the budget is built up using detailed estimates in January.
- 2.8 There are still some uncertainties that will impact on the budget for 2018/19. Notwithstanding these, portfolio-holders have been busy with their directors/heads of service in trying to identify efficiency options and ideas to reduce the cost of services or to increase income. These ideas are listed in Appendix B for discussion.
- 2.9 The Council has already taken difficult decisions since 2008, which have mitigated the impact of the financial and economic crisis. But the culture of innovation and rigorous reduction combined with income optimisation will need to continue and there are likely to be further strategic decisions required. The Council is now on a firm financial footing and has an embedded culture of change and efficiency from which to face the challenges ahead.
- 2.10 Provided all the corporate savings and budget work streams are delivered then there is still a funding gap at this stage. The major changes over the current year are summarised in the table below.

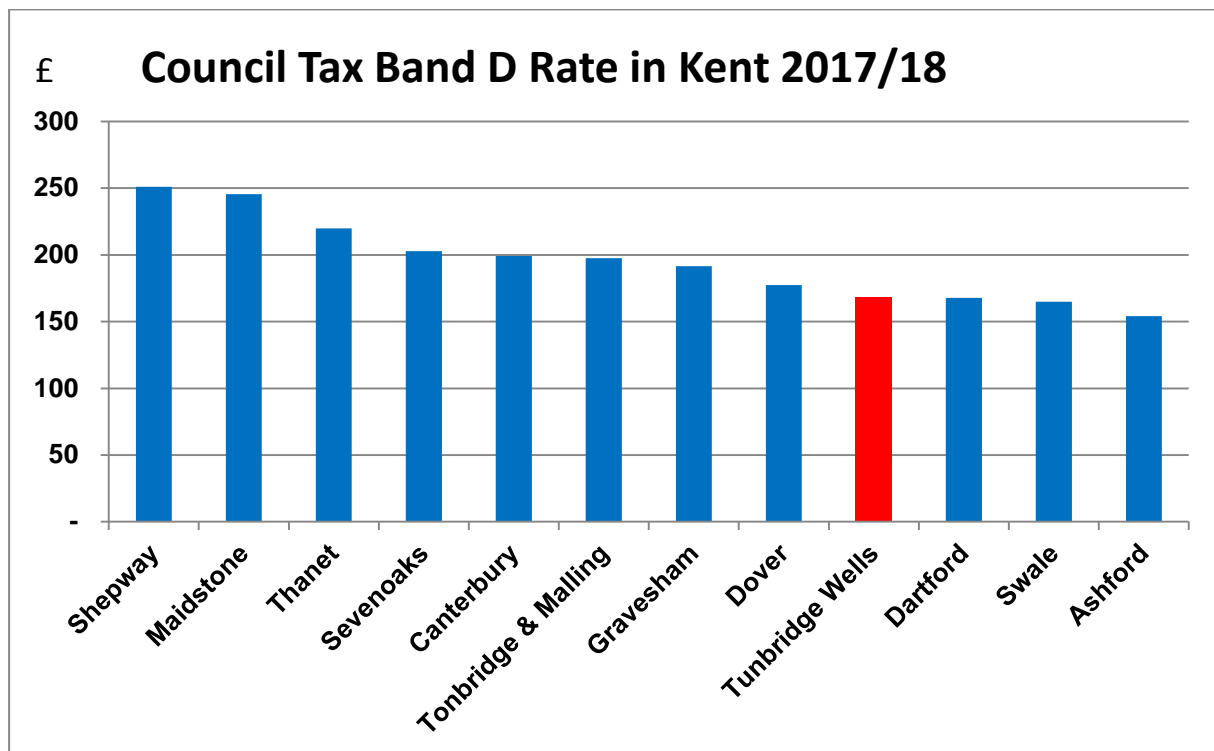
	£000s
<b>Government Grant cut to zero</b>	<b>202</b>
Loss of Transitional Grant	74
Loss on income from centralising Local Land Charges	90
Inflationary pressures	230
Net new Housing posts and rent for Homelessness Act	158
New Data Protection post for (GDPR)	30
Lose the ability to pass on credit card charges to users	15
New insurance contract	(80)
Income from crematorium improvements	(150)
Council Tax increase of £5	(300)
Proposed efficiencies (Appendix B)	(120)
Further efficiencies	TBC
Increase in income	TBC
Use of general reserves	0
<b>Funding Shortfall</b>	<b>149</b>

## Council Tax Strategy

- 2.11 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold for triggering a referendum.
- 2.12 For the remainder of this Parliament the Government has allowed the most efficient authorities such as this Council to be able to increase council tax up to £5.00 a year, indeed the Government assumes this Council will do so in their assessment of this Council's available financial resources. It will be for Full Council in February 2018 to decide the level of Council Tax.
- 2.13 The following graph shows that since 2009/10 council tax has been cut in real terms compared to inflation and was frozen in 2011/12.



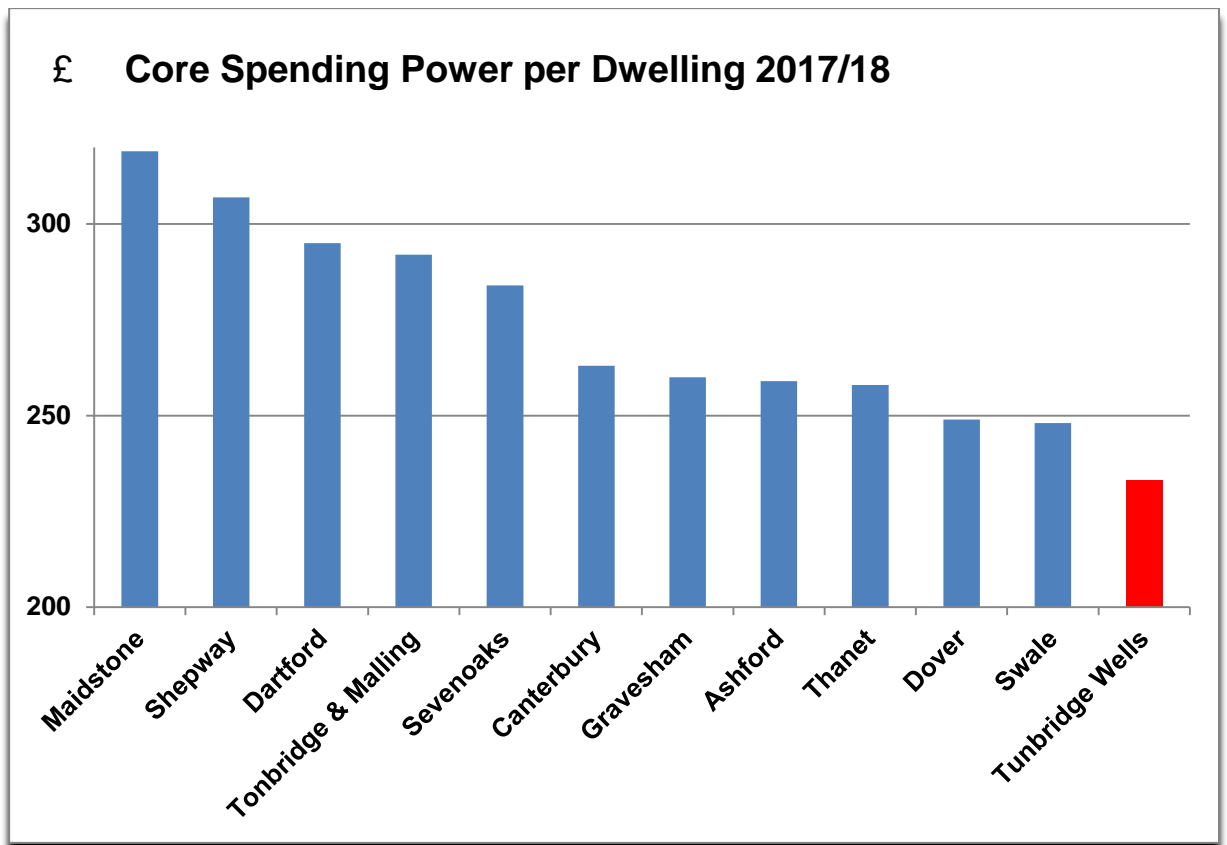
2.14 The graph below shows the comparison across Kent of the amount of income raised through council tax for 2017/18.



2.15 The basic amount of Council Tax in the Borough is currently £168.59 (46p a day) which is the fourth lowest in Kent. By way of example if Sevenoaks and Maidstone Councils freeze their council tax every year and this Council agrees an increase up to the capping limit every year then it would take 8 years and 17 years respectively for the TWBC rate to reach the level charged by these councils.

### Spending Power

2.16 The Government has developed a universal benchmarking indicator called 'Spending Power' to enable comparisons between councils of the income they receive from national and local tax payers. This indicator appears to be the best available for identifying how much funding each council receives per household to provide local services. The graph below shows that using the Government's own calculation TWBC has by far the lowest spending power in Kent at just £233 per household (£249 in 2016/17).



2.17 This graph explains why despite being very efficient (as evidenced by the external auditor's unprecedented sixth clean Annual Audit Letter) and delivering excellent value for money (2015 Residents' Survey) this Council still faces financial challenges to set a balanced budget. In addition any budget gap will widen as more services that generate an income are nationalised (Local Land Charges) and those that cost money are localised (business rate appeals).

### **User Pays Principle**

2.18 With operating costs and taxation driving up expenditure it will be necessary to recover these costs from the user of those services rather than all council tax payers.

2.19 In November 2017, Cabinet will consider the 'fees and charges' report for areas which are not dictated by central government. The budget projections have assumed for modelling purposes that the total income from the charges set out in the report is achieved.

### **Car Parking Charges**

2.20 There are no plans to increase car park charges.

### **Staff savings and efficiencies**

2.21 Directors/ Heads of Services and Portfolio Holders have been busy trying to identify further efficiency options to reduce the cost of their services and to increase income.



## Digital Transformation

- 2.22 It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council will need to find new ways of working smarter and deliver services in a more digitally efficient form which meets with the way the public now interact with service providers. The Council has a Digital Services and Transformation Team in place to improve operational delivery and transform the way that services are provided. Details of these projects are reported quarterly to Cabinet and the resulting efficiencies will be incorporated in the budget setting process.

## Budget Calculations and Adequacy of Reserves

- 2.23 When the budget is set in February the Council's Section 151 Officer must give his view on the robustness of the estimates and adequacy of reserves.
- 2.24 The Council's Medium Term Financial Strategy 2017/18 to 2021/22 (MTFS) was agreed by Full Council on 22 February 2017 and projected the financial impact of the Council's current and proposed policies in the short and medium term. This report and the projections in Appendix B will form part of the MTFS Update for 2018/19.
- 2.25 It is important to recognise that there are a number of factors that can affect some budgets and where variances could be significant requiring closer budget management; these areas include:

Risk Area	Management
Planning Inquiry Costs	Whilst the primacy of planning is paramount, decisions taken by the Planning Committee can lead to formal planning inquiries which have the potential for substantial costs to arise which are not budgeted for.
Business Rates Retention Scheme	Part of the Council's government grant is now linked to the amount of business rates in the Borough. However, the Government has also transferred the liability for business rate appeals already in the system. To help mitigate the impact of appeals the Council maintains a Grant Volatility Reserve and is part of a Kent Business Rate Pool.
Economic Conditions	The majority of the Council's income is derived from sources which are subject to the prevailing economic conditions. Economic conditions can also alter the demand for Council services and those provided by partners and the voluntary sector.
Employee Costs	The move to local pay offers some protection but a watching brief is still required especially regarding the vacancy factor. Changes to pensions, national insurance and the introduction of an apprentice levy have been included where known but such further changes can have a significant cost. Demand for some professionals exceeds supply and this is exacerbated by the higher salaries available in London and parts of the private sector.

Welfare Reform	Dependant on rent levels, unemployment rates and the huge uncertainty surrounding much of the legislative changes from Welfare Reform.
Parking Income	Dependant on usage and the economic environment.
Planning and Building Control Income	Dependant on the economy and the impact of legislative changes which limit the full recovery of the cost of providing these services.
Crematorium Income	Dependant on mortality rates.
Contracts	Dependant on inflation indices and a competitive market.
Utilities	Global supply and demand plus above inflation price rises.
Land Charges	The Infrastructure Bill was approved, paving the way for Local Land Charges to be centralised into a single computer system. No details of timeframe or how the Land Registry will provide the service have been released.
Investment Returns	New cash deposits are dependent on interest rates and levels of balances. Property investments are dependent on the type of asset and rental demands.
Targeted Options to Reduce Net Expenditure	Assumes that savings identified are delivered and there are no unintended consequences.
Capital Receipts	Capital is tied up in non-operational assets which if released will help to reduce the use of cash reserves to fund the capital programme.
Government Policy and Announcements by Ministers	There has been a significant increase in volume of legislation and announcements which can undermine strategic planning and compromise budget assumptions.
Civic Development Programme	If this project proceeds then the financial impact on the 2018/19 budget is expected to be contained within the approved resources for the Civic Development Budget.

## Capital and Revenue Reserves

2.26 The Medium Term Financial Strategy maintains the following as an adequate level of reserves:

	Minimum
General Reserves (Revenue)	£2.0 million
Capital Reserves	£2.0 million

2.27 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget in 2018/19 but a sustainable budget for the future.

- 2.28 In addition to the revenue and capital budget, the Council has earmarked reserves which form part of the Budget and Policy Framework and are available to fund the specific purpose of the reserve in accordance with the virement procedure rules. The projected balances of these reserves are shown below:-

Reserves	Opening Balance 1/4/2017	Movements in Reserves 2017/18	Forecast Closing Balance 31/03/2018
	£000's	£000's	£000's
General Fund	4,159	348	3,811
Earmarked Reserves	11,143	4,260	6,883
Capital Grants & Contributions	836	0	836
Capital Receipts Reserve	1,000	(1,875)	2,875
<b>Total Reserves</b>	<b>17,138</b>	<b>2,733</b>	<b>14,405</b>

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### 3. AVAILABLE OPTIONS

- 3.1 The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives but ultimately the Council must produce a budget which meets its statutory responsibilities.

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### 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 To agree the content and recommendations of the report to set a balanced budget that will meet the Council's priorities.

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### 5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Council already has a wealth of information from previous budget consultation exercises and residents' surveys, the most recent being undertaken in 2015.
- 5.2 Early public engagement is essential to arrive at suitable feedback which can be developed in time to be incorporated within the budget. A well-rehearsed process of public engagement will be used. Already an article has been published in the Local magazine which is delivered free to every household in the Borough, seeking views on how the Council should set a balanced budget.
- 5.3 This is the third report in the process of setting the 2018/19 budget and builds on the previous views and recommendations of the Finance and Governance Cabinet Advisory Board and Cabinet.
- 5.4 The above will form an overall picture of prioritisation. Cabinet proposals for savings and growth will be tested through consultation.
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## 6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The draft budget will be placed onto the Council's consultation portal until 18 January 2018, with responses included in the final report to Cabinet and Full Council in February 2018.

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## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Legal</b> including Human Rights Act	The Five Year Plan and budget form part of the Council's Policy Framework.	Patricia Narebor, Head of Legal Partnership
<b>Finance</b> and other resources	This report forms part of the Council's Budget and Policy Framework.	Lee Colyer, Director of Finance, Policy and Development 30 October 2017
<b>Staffing establishment</b>	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	
<b>Risk management</b>	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding streams which is being monitored by Cabinet and the Audit and Governance Committee.	
<b>Environment</b> and sustainability	The budget has regard to the environmental sustainability priorities within the Five Year Plan.	
<b>Community safety</b>	The budget has regard to the community safety priorities within the Five Year Plan.	
<b>Health and Safety</b>	The budget has regard to the Health and Safety obligations and priorities within the Five Year Plan.	
<b>Health and wellbeing</b>	The budget has regard to the health and wellbeing priorities within the Five Year Plan.	
<b>Equalities</b>	Changes to service delivery may impact on equalities; however heads of service will ensure that an equality assessment is in place where this has been identified.	

## 8. REPORT APPENDICES

The following documents are to be published with and form part of the report:

- Appendix A: Five Year Budget Projections
- Appendix B: Budget Work Streams

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## 9. BACKGROUND PAPERS

None