

Finance and Governance Cabinet Advisory Board

13 November 2018

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

No

Draft Budget 2019/20 and Medium Term Financial Strategy Update

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

Meeting	Date
Management Board	31 October 2018
Discussion with Portfolio Holder	12 November 2018
Finance & Governance Cabinet Advisory Board	13 November 2018
Cabinet	6 December 2018

Draft Budget 2019/20 and Medium Term Financial Strategy Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

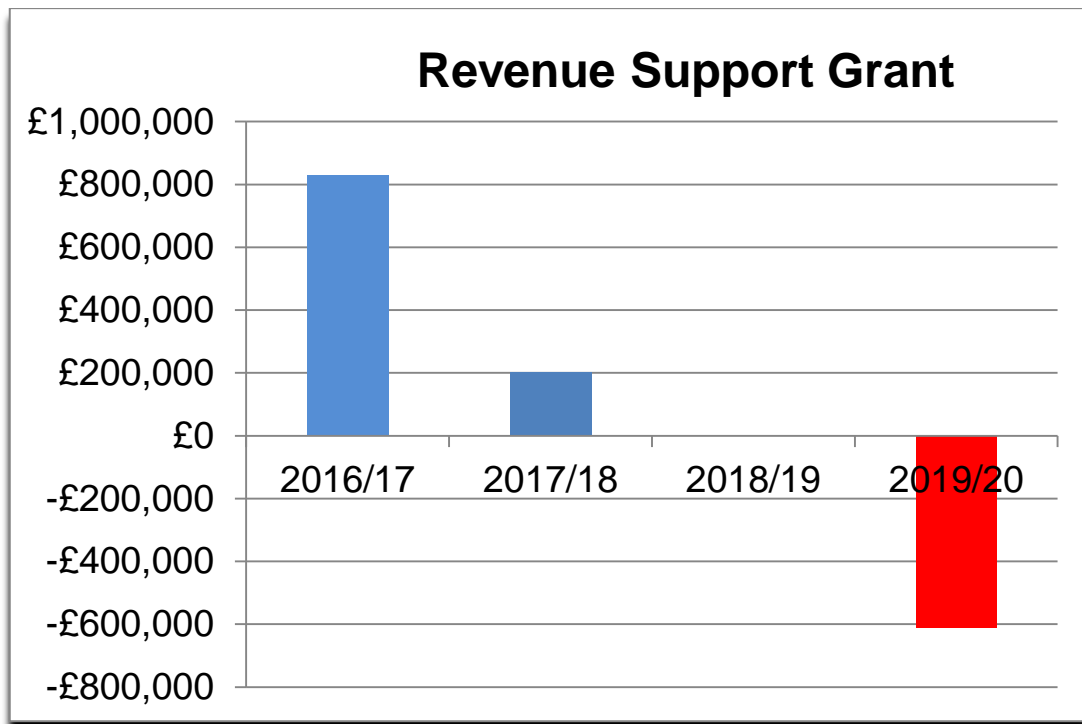
- 1.1 This report outlines the assumptions that have been built into the draft budget for 2019/20.
 - 1.2 Provided the £606,000 of negative Revenue Support Grant (RSG) is removed as now proposed by central government, the draft budget still has a funding gap of £76,000 which is an improvement of £21,000 on the previously reported projection. However, if left unmanaged this would produce a combined deficit of £1.2 million by 2023/24, which would need to be funded from new income or further efficiencies.
 - 1.3 For 2019/20 Revenue Support Grant for this Council is expected to remain at zero. This will leave the total reduction in central government support for local services since 2010 as £4.6 million. By balancing the budget every year without the use of reserves the Council has managed to deal with this reduction and is financially self-sufficient.
 - 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 2019/20 budget at the meeting on 2 August 2018 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 2 October 2018.

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.



- 2.3 Since the creation of negative Revenue Support Grant this Council has been active in bringing this issue to national prominence and explaining how unacceptable negative RSG would be to local taxpayers of those areas affected. The Government has listened and in September 2018 published the 2019/20 Local Government Finance Settlement Technical Consultation which amongst other issues asked;

“Do you agree with the Government’s preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019/20?”

- 2.4 Confirmation is expected to be set out in the Provisional Local Government Settlement 2019/20 scheduled for the 6 December 2018.

Budget 2018

- 2.5 The Chancellor of the Exchequer presented the Budget 2018 to the House of Commons on 29 October 2018 which he stated that “the era of austerity is finally coming to an end”. The main points of relevance for this Council before analysing the wider Economic Forecasts are as follows;

- Councils will be provided with an additional £55 million in 2018/19 for the Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low incomes.
- The creation of a Future High Streets Fund to invest £675 million in England to support local areas fund plans to redevelop their high streets and town centres.
- Business Rates bills will be reduced by one-third for retail properties with a rateable value below £51,000 for 2 years from April 2019 and the discount for local newspapers will be continued. This Council will be compensated for the

loss of income as a result of these business rates matters via S31 grants. It is important not to confuse the business rates charge which is set by national government with the tax base which financially rewards those areas such as this borough which are growing their local economy.

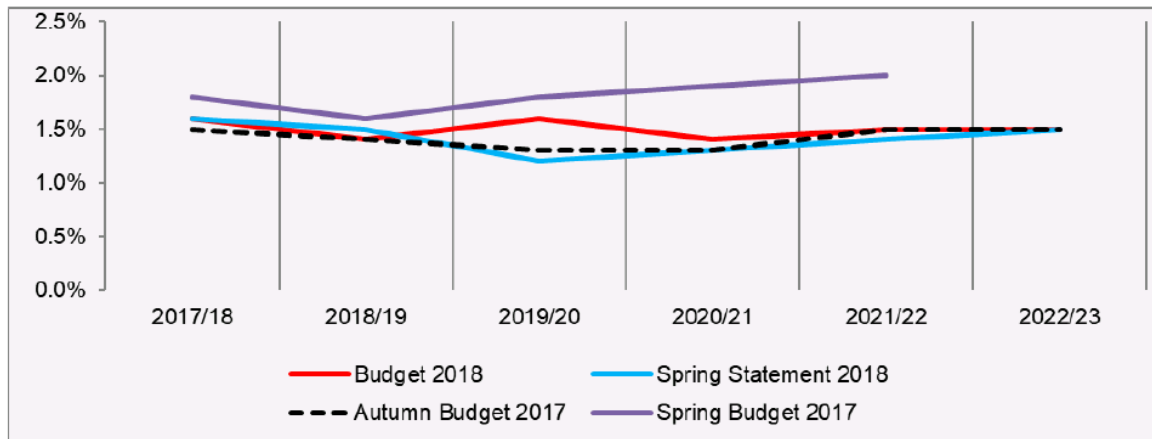
Economic Forecasts

2.6 Below is a summary of the economic data and forecasts of relevance to local government which has been published as part of the 2018 Budget.

Growth - Gross Domestic Product (GDP)

2.7 The graph shows that the forecast of UK economic growth for 2018/19 is slightly reduced by 0.1 per cent but has increased by 0.4 per cent and 0.1 per cent in 2019/20 and 2020/21 respectively from the forecast produced in March 2018.

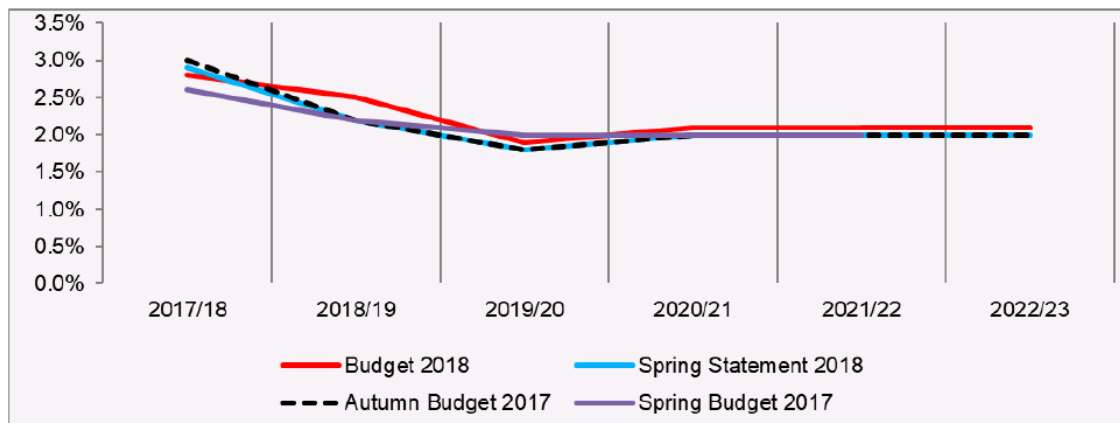
Figure 3.1 GDP Growth Forecasts



Inflation - Consumer Prices Index (CPI)

2.8 The graph shows an increase in the rate forecast for 2018/19 of 0.3 per cent and a 0.1 per cent increase in the rate forecast for each year between 2019/20 to 2022/23.

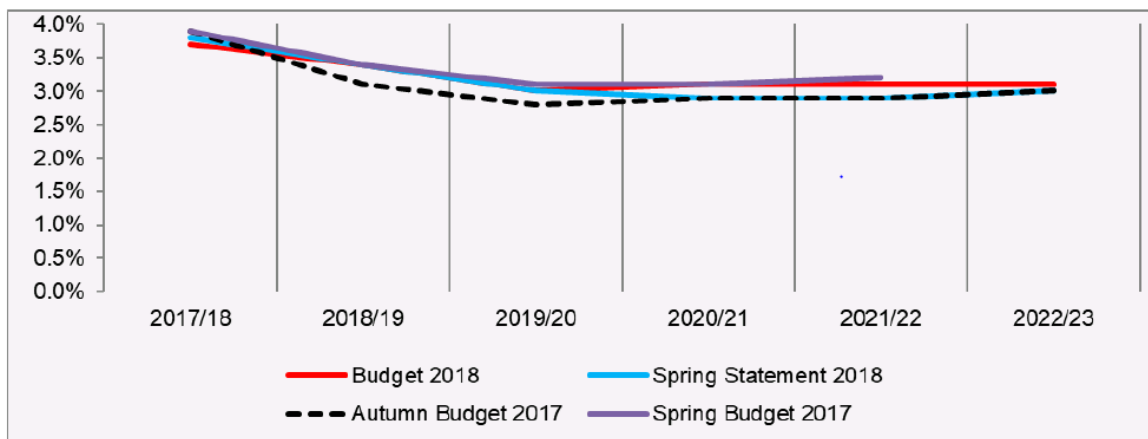
Figure 3.2 CPI Inflation Forecasts



Inflation – Retail Prices Index (RPI)

- 2.9 The graph shows only small changes in the forecast for RPI over the period, with increases of 0.2 per cent in the forecast for 2020/21 and 2021/22 and 0.1 per cent in 2022/23.

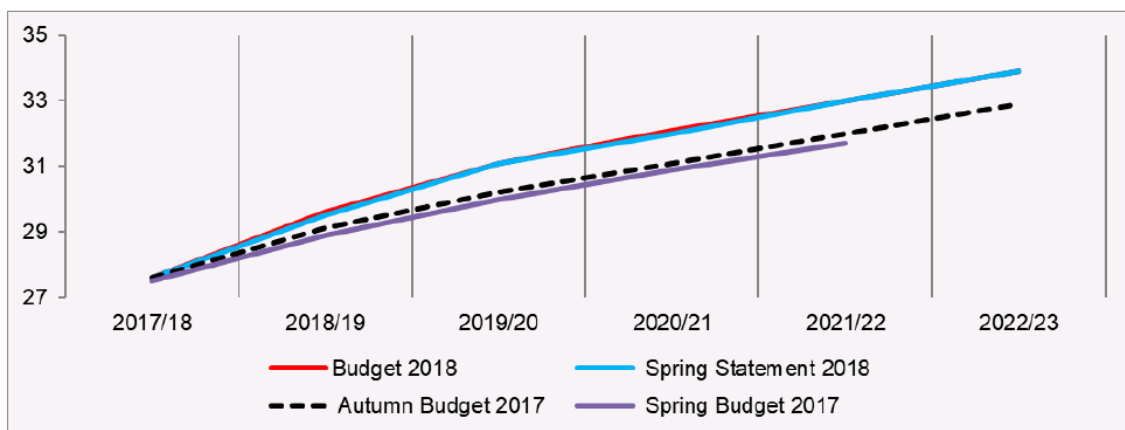
Figure 3.3 RPI Inflation Forecasts



Projected receipts from Council Tax

- 2.10 The graph shows the forecast projected receipts from Council Tax for England published as part of the supplementary fiscal tables, against those published in previous announcements. The Office for Budget Responsibility assumes increases in council tax at an average of 3.8 per cent in 2019/20.

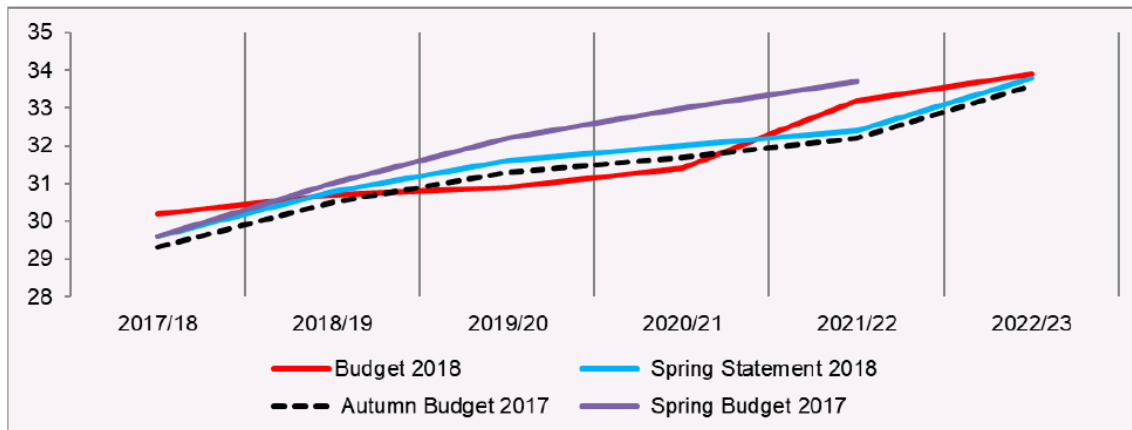
Figure 3.4 Projected Receipts from Council Tax (£bn)



Projected receipts from Business Rates

- 2.11 The graph shows decreases in business rates income in the two years leading up to the Revaluation 2021 which reflect the announcement of additional reliefs for retail premises in the Budget 2018; but higher income in 2021/22 (after the next revaluation was brought forward at the Spring Statement) and then receipts in 2022/23 remaining broadly consistent with the previous forecast.

Figure 3.5 Projected receipts from business rates (£bn)



Spending Review 2019 (SR19)

- 2.12 As a background to the SR19, the government has highlighted that compared with the Spring Statement, public sector net borrowing and debt is lower in every year of the forecast.
- 2.13 The government had indicated at the 2018 Spring Statement that it would outline control totals for the Spending Review to be carried out in 2019. This is assumed to be for the four year period 2020/21 to 2023/24.

Pilot for 75 per cent Localisation of Business Rates

- 2.14 On 25 September 2018 all local authorities within Kent submitted a bid proposal to become a pilot for the retention of 75 per cent localisation of business rate growth for 2019/20. The headline distribution of net growth proceeds is as follows;

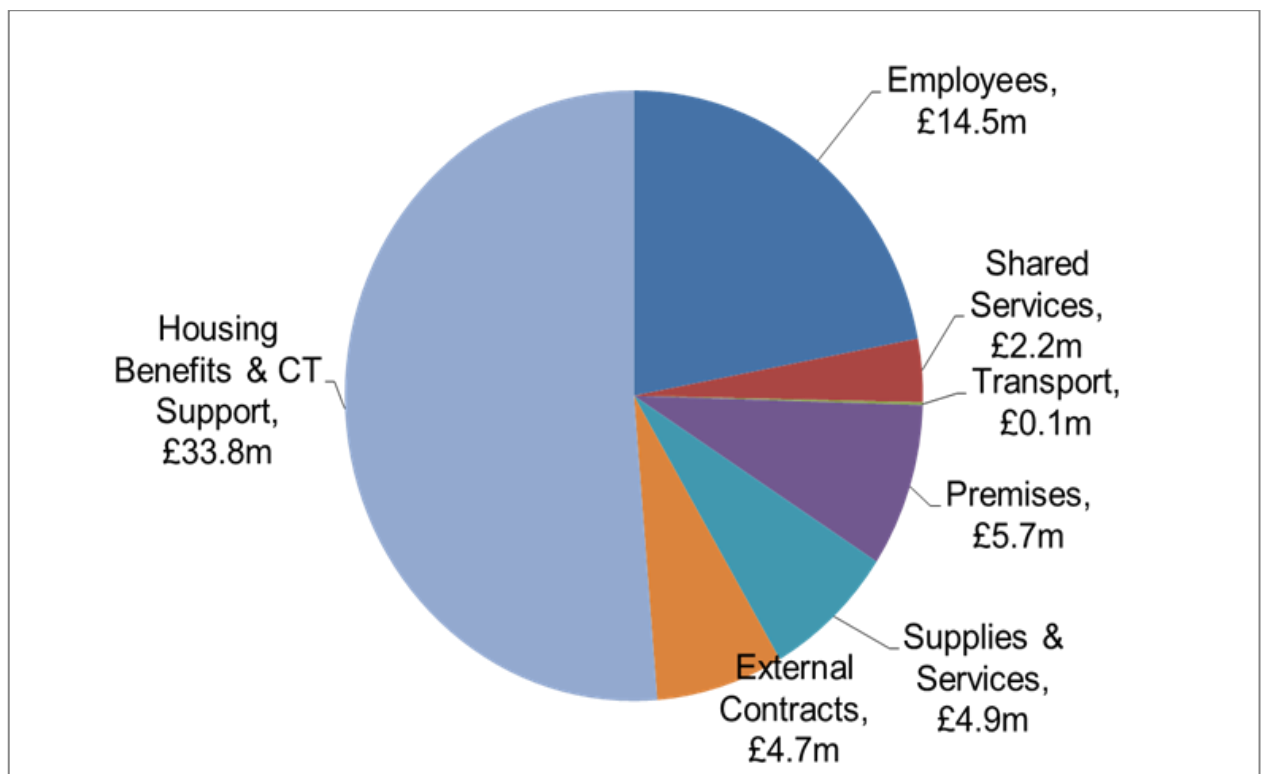
	Existing 50%	Additional 25%	Total
Districts	40	12.5	52.5
Kent CC	9	12.5	21.5
KFRS	1	0	1

- 2.15 If successful then this would result in an estimated £18.2 million of growth proceeds that would otherwise be returned to HM Treasury being retained within Kent. The Kent Pilot submission creates a Financial Stability Fund (80 per cent) and a Future Growth Fund (20 per cent) for the proceeds of business rates growth.
- 2.16 The financial benefits for this Council would be to retain an extra £460,000 of business rate growth and have access to the West Kent Future Growth Fund of £780,000. An announcement of those areas that have been selected to be a pilot is expected at the time of the Provisional Local Government Finance Settlement in December 2018. If the bid is unsuccessful then the Kent authorities will revert back to the Kent Business Rates pool.

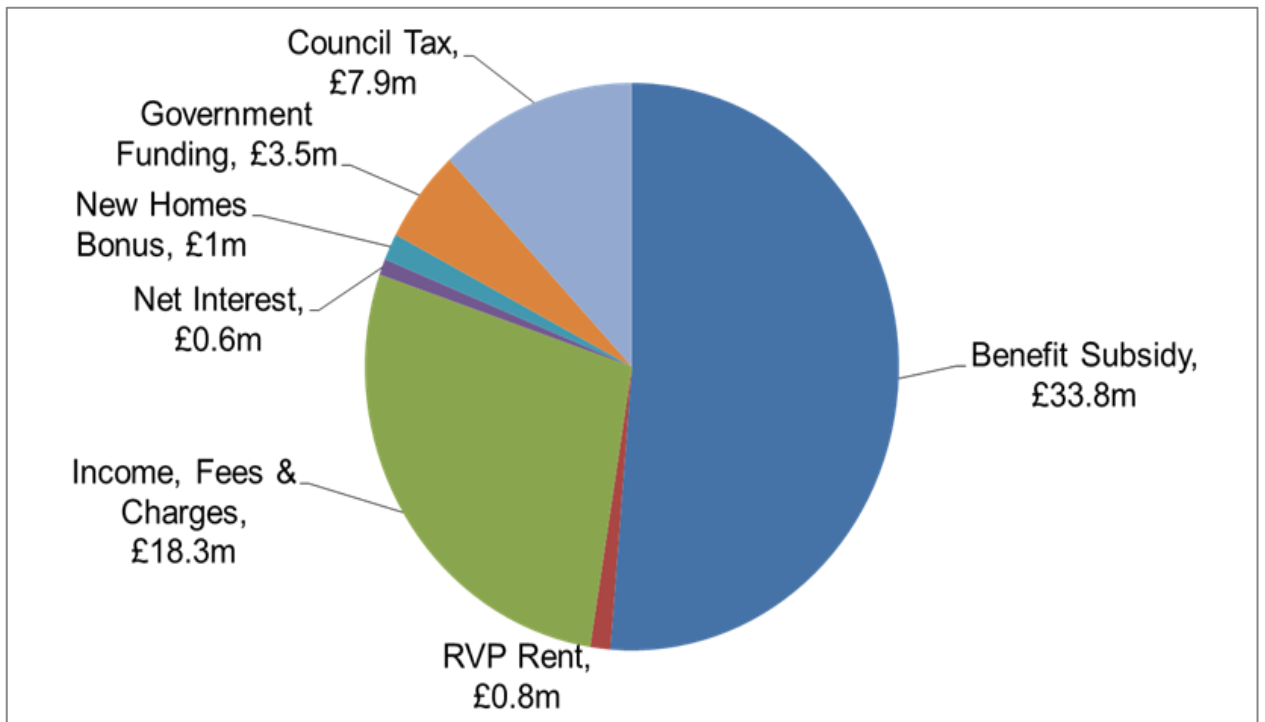
Budget Breakdown

- 2.17 The Council provides a diverse range of services across the Borough which currently cost £65.9 million. The services are provided either by contractors, through partnership with other councils or by directly employing staff. As at 30 June 2018 the Council employed 281 FTEs (full time equivalents). The following pie charts show the current revenue expenditure and how this is funded.

2018/19 Revenue Expenditure



2018/19 Revenue Funding



A further subjective breakdown of the budget per cost centre for 2018/19 is available on the Council's website.

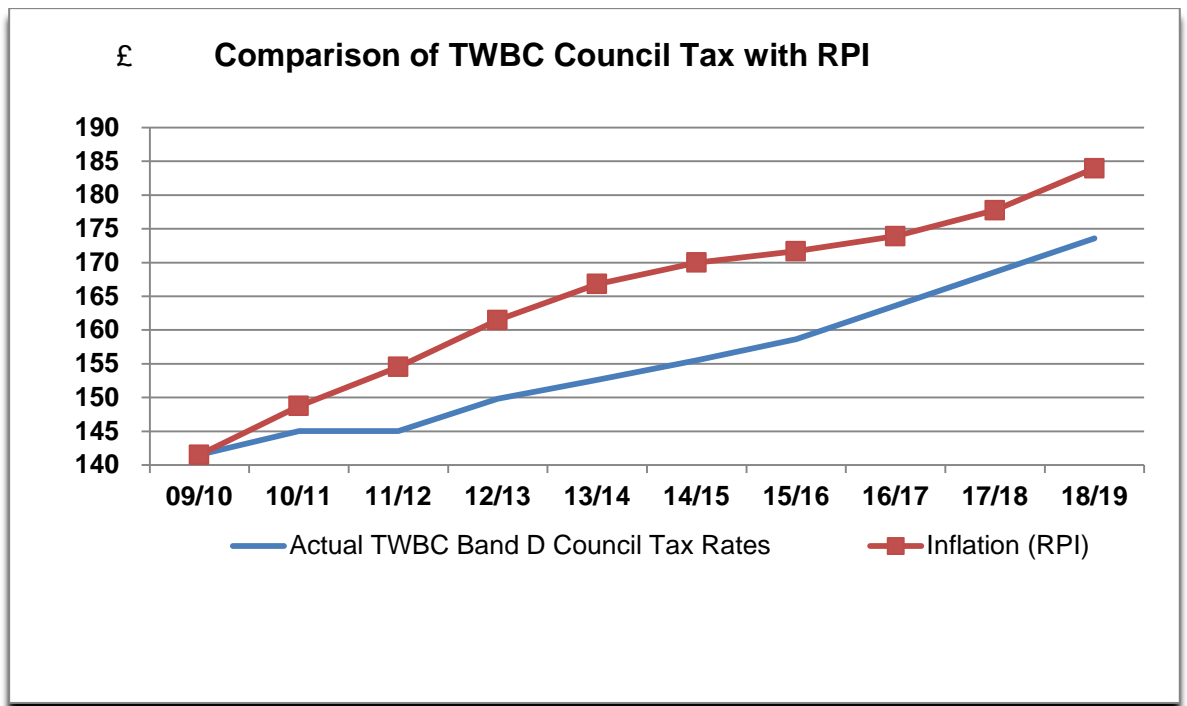
Latest Budget Projection 2019/20

- 2.18 The latest budget projection has been developed using estimates on how various types of costs and income will look when the detailed budget is finalised.
- 2.19 There are still some uncertainties that will impact on the budget for 2019/20. 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.
- 2.20 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.
- 2.21 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.

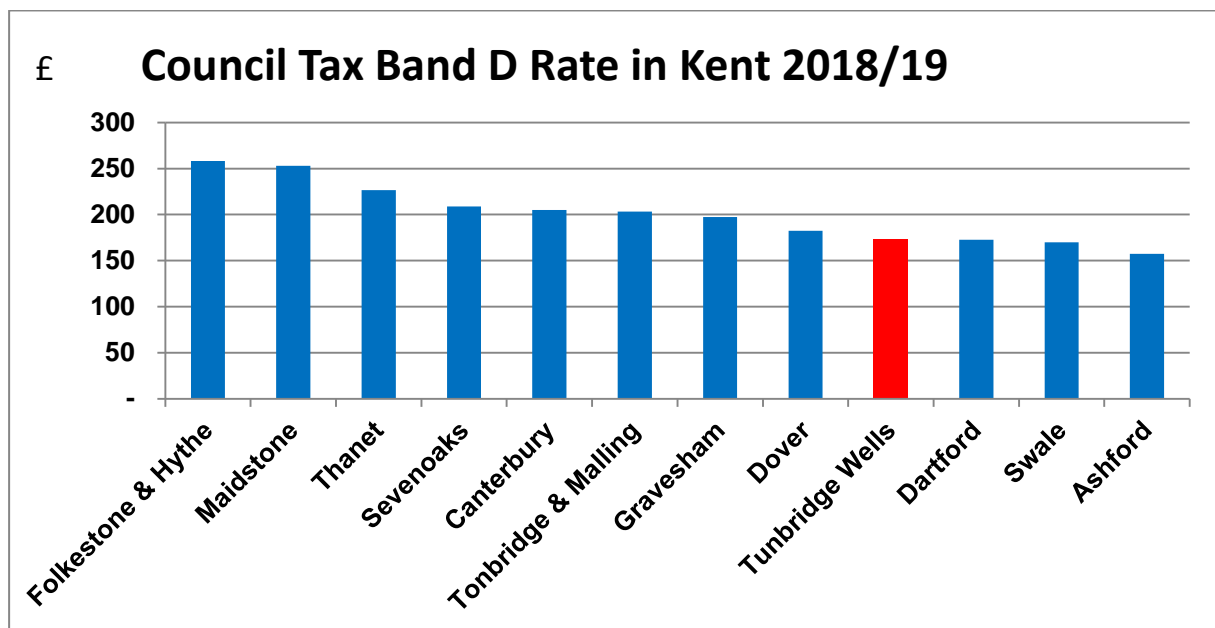
	£000s
Negative Government Grant (Under review)	606
Removal of Negative Government Grant	(606)
Reduction in Administration Grants	10
Reduction in New Burdens Grant	10
Reduction in Universal Credit Grant	108
Reduction in New Homes Bonus	135
Training and Qualifications	20
Software Licences	25
Counsel Fees	12
New Cleaning Contract	45
Private Sector Housing	39
Planning Policy	22
Building Control	39
North Farm Depot	40
Bank Charges	13
Reduction in Car Parking Income	146
Additional Income from Fees and Charges	(272)
Additional Council Tax Income	(316)
Use of Reserves	0
Shortfall	76

Council Tax Strategy

- 2.22 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.
- 2.23 The Council Tax 'cap' set by government for this council is currently £5.00 a year. This may well change following the publication of the Provisional Local Government Finance Settlement. The Government assumes Council Tax will increase by the 'cap' in their assessment of this Council's available financial resources. It will be for Full Council in February 2019 to decide the level of Council Tax.
- 2.24 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.



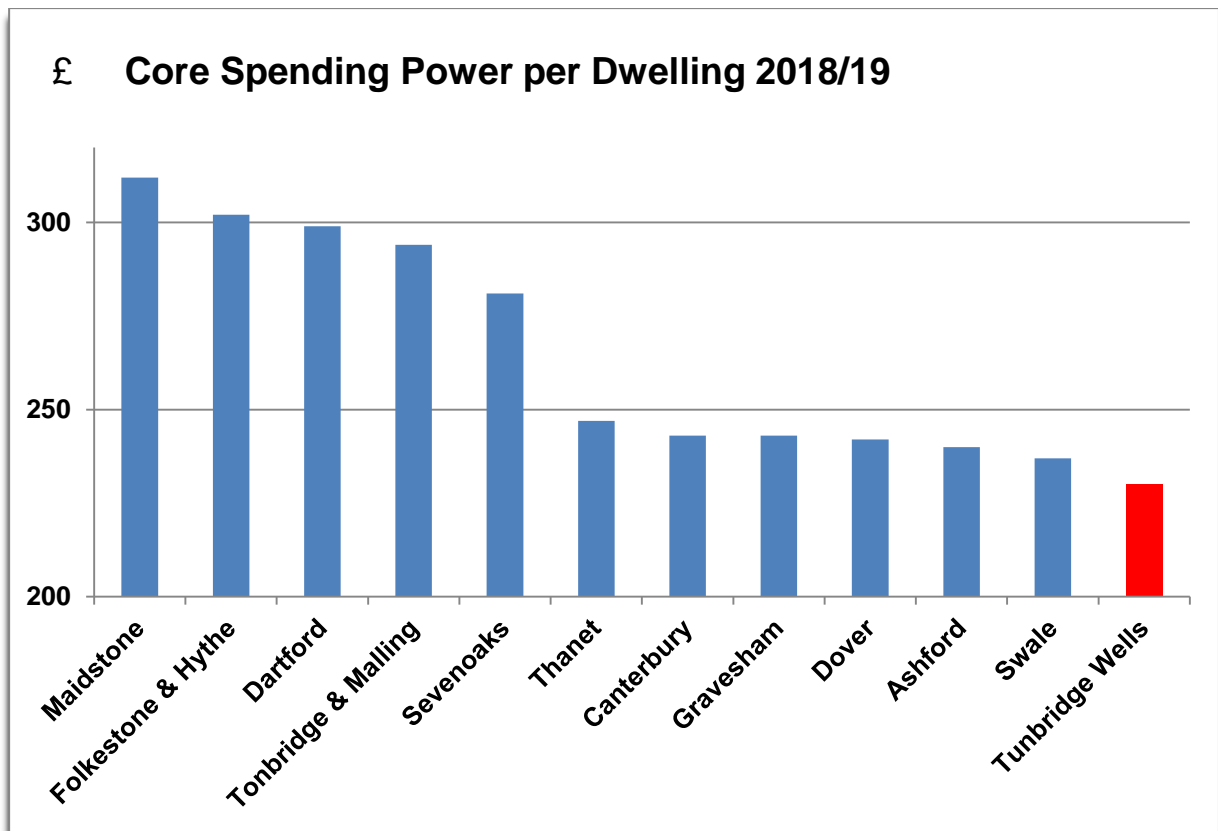
2.25 The graph below shows the comparison across Kent of the level of Council Tax charges for 2018/19.



2.26 The basic amount of Council Tax in the Borough is currently £173.57 (47.5p 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

2.27 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 £230 per household (£233 in 2017/18).



2.28 This graph explains why despite being very efficient (as evidenced by the external auditor's unprecedented nine consecutive clean Annual Audit Letters) and delivering excellent value for money (2015 Residents' Survey) this Council still faces financial challenges to set a balanced budget.

User Pays Principle

2.29 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.

2.30 In November 2018, 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 that report are achieved.

Car Parking Charges

2.31 There are no plans to increase general car park charges.

Staff savings and efficiencies

2.32 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

2.33 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 to Cabinet and the resulting efficiencies will be incorporated in the budget setting process.

Budget Calculations and Adequacy of Reserves

2.34 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.

2.35 The Council's Medium Term Financial Strategy 2018/19 to 2022/23 (MTFS) was agreed by Full Council on 21 February 2018 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 A will form part of the MTFS Update for 2019/20.

2.36 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 Pilot.

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.

Capital Programme	Major capital schemes carry a significant risk which is managed through the Council's Strategic Risk Register.
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Capital and Revenue Reserves

2.37 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

2.38 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 2019/20 but a sustainable budget for the future.

2.39 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:-

	31-Mar-18 Actual £000's	31-Mar-19 Forecast £000's	31-Mar-20 Forecast £000's	31-Mar-21 Forecast £000's	31-Mar-22 Forecast £000's
General Fund	4,000	4,000	4,000	4,000	4,000
Earmarked Reserves	12,753	7,362	4,729	6,114	5,549
Capital Grants & Contributions	1,383	1,383	1,383	1,383	1,383
Capital Receipts Reserve	2,025	1,000	1,000	1,000	1,000
Ameila Scott Reserve*	1,750	738	2,025	0	0
Total Reserves	21,911	14,483	13,137	12,497	11,932
33 Monson Road Financing Balance	(1,710)	(1,639)	(1,568)	(1,497)	(1,426)
Dowding House Financing Balance	(2,227)	(2,138)	(2,049)	(1,960)	(1,871)
Calverley Square Financing Balance	0	(5,000)	(13,000)	(58,000)	(77,000)
RVP Financing Balance	0	(1,050)	(1,008)	(966)	(924)
Waste Containers Financing Balance	0	(680)	(612)	(544)	(476)
Total Outstanding Financing	(3,937)	(10,507)	(18,237)	(62,967)	(81,697)

* Note: Schemes not funded from reserves need to be charged to revenue and this repayment is reflected in the reduction in financing over the life of the asset. The cash to service these schemes is raised through borrowing or cash flow management.

Ameila Scott Reserve	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
Ameila Scott Spend per year	(100)	(2,400)	(100)	(4,680)	(7,280)
Holly Farm Receipt per year	1,850	1,388	1,387	2,655	7,280
Net position	1,750	(1,012)	1,287	(2,025)	0
Cumulative Ameila Scott Reserve	1,750	738	2,025	0	0

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. An article will be 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 2019/20 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 16 January 2019, with responses included in the final report to Cabinet and Full Council in February 2019.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Legal including Human Rights Act	The Five Year Plan and budget form part of the Council's Policy Framework.	Head of Legal Partnership

Finance and other resources	This report forms part of the Council's Budget and Policy Framework.	Director of Finance, Policy and Development
Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Head of HR
Risk management	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.	Head of Audit Partnership
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five Year Plan.	Sustainability Manager
Community safety	The budget has regard to the community safety priorities within the Five Year Plan.	Community Safety Manager
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five Year Plan.	Health and Safety Advisor
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five Year Plan.	Healthy Lifestyles Co-ordinator
Equalities	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.	West Kent Equalities Officer

8. REPORT APPENDICES

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

- Appendix A: Five Year Budget projections

9. BACKGROUND PAPERS

- None