

# \*Budget 2021/2022 and Medium-Term Financial Strategy Update

For Finance and Governance on 12 January 2021

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## Summary

**Lead Member:** Councillor Tom Dawlings, Finance and Governance Portfolio Holder

**Lead Director:** Lee Colyer, Director of Finance, Policy and Development

**Head of Service:** Jane Fineman, Head of Finance and Procurement

**Report Author:** Lee Colyer, Director of Finance, Policy and Development

**Classification:** Public document (non-exempt)

**Wards Affected:** All

Approval Timetable	Date
Management Board	5 January 2021
Portfolio Holder	5 January 2021
Finance & Governance Cabinet Advisory Board	12 January 2021
Overview and Scrutiny	18 January 2021
Cabinet	4 February 2021
Full Council	24 February 2021

## Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Council considers the changes to the base budget along with the assumptions and approach set out throughout the report;
2. That Council considers the responses to the budget consultation in Appendix C;
3. That Council approves the rolling forward of the capital programme including additional gross funding of £2,834,600 for new schemes listed within the report; and

4. That Council approves an increase in the 'Basic Amount' of Council Tax of £5.00 per annum for a Band D property.

# 1. Purpose of Report and Executive Summary

- 1.1 This report outlines the assumptions that have been built into the budget for 2021/22.
- 1.2 Cabinet are asked to recommend this budget to full Council which includes the following main headlines:
- The Covid-19 pandemic has resulted in the cost of providing local services being greater than the income generated.
  - Zero Revenue Support Grant from central Government to help fund local services.
  - Temporary use of £1,935,040 of reserves to balance the budget.
  - New capital investment schemes with a gross cost of £2,834,600.
- 1.3 The draft budget was subject to four weeks of public consultation ending on 4 January 2021.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters relating to, or which might affect, the calculation of Council Tax.

Any Member of a Local Authority, who is liable to pay Council Tax, and who has any unpaid Council Tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must not cast their vote on anything related to the Council's Budget or Council Tax.

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## 2. Introduction and Background

- 2.1 Cabinet received the first report leading to the setting of the 2021/22 budget at the meeting on 10 September 2020 entitled Budget Projection and Strategy which had also been considered by the Overview and Scrutiny Committee. This was followed by the Budget Update report on 19 November 2020 and then the Draft Budget on 3 December 2020, both of which had also been considered at the Finance & Governance Cabinet Advisory Board.

### Government Funding Settlement

- 2.2 The Government's four-year funding settlement ended in 2019/20 and a one year 'roll over' occurred for 2020/21 which again required the Council to be financially self-

sufficient. Since 2010 when cuts to funding of Local Government commenced, the ability to fund local services continues to be dependent on growing the local economy and sharing in the proceeds of business rates growth.

## Spending Review (SR20)

- 2.3 On 25 November 2020 the Chancellor published the one-year Spending Review (not a Comprehensive Spending Review as previously announced). The review did not contain any surprises for the Council.
- 2.4 The Departmental Expenditure Limit (DEL) allocated to the Ministry of Housing Communities and Local Government (MHCLG) determines how much if any funding is to be allocated to Local Government.
- 2.5 An update to the economic and fiscal forecasts has been published by the Office for Budget Responsibility (OBR) in November 2020 alongside the SR20.

## Provisional Local Government Finance Settlement 2021/22

- 2.6 On 17 December 2020 the Government published the Provisional Local Government Finance Settlement which includes more detail of the funding available to individual councils.
- 2.7 There were no major surprises in the provisional settlement which accords with the forecasts used in the Draft Budget. The publication of the technical supporting papers are still awaited but the main headlines for this Council are as follows:
  - Council Tax can increase by 2 per cent or £5 for those district councils with low council tax rates such as TWBC.
  - The Police and Crime Commissioner can increase Council Tax by up to £15, KCC up to 5 per cent and there is no limit on the ability of parishes to increase council tax.
  - TWBC will receive £859,958 from the New Homes Bonus (NHB) scheme compared to £1,160,279 for 2020/21. This will be the final year of new awards under the current NHB scheme.
  - Revenue Support Grant will be increased in-line with inflation (this Council will still receive zero).
  - The share of business rates growth will continue for another year and this Council will continue to be part of the Kent Business Rates Pool.
  - A new Lower Tier Services Grant of £101,131 will be received to pay towards the cost of Homelessness, Planning, Waste and Leisure.
  - The headline increase by the Government is that Core Spending Power will increase for Local Government by 4.5 per cent. This is misleading and assumes that the tax base will increase, which will not be the case due to the rise in claimants for Single Person Discount and the Council Tax Reduction Scheme, resulting in a reduction to the tax base. MHCLG were notified of this inaccurate basis of their calculations. The corrected calculation is that this council's spending power will reduce by 0.9 per cent compared to 2020/21.

2.8 The provisional settlement is subject to consultation which ends on 16 January 2021. The Council will continue to lobby for greater local decision-making and more appropriate funding distribution that reflects the higher cost of providing local services within the South East especially on a very lean base. The settlement is just for a single year which will continue to cause uncertainty and hinder medium-term financial planning.

## New Homes Bonus (NHB)

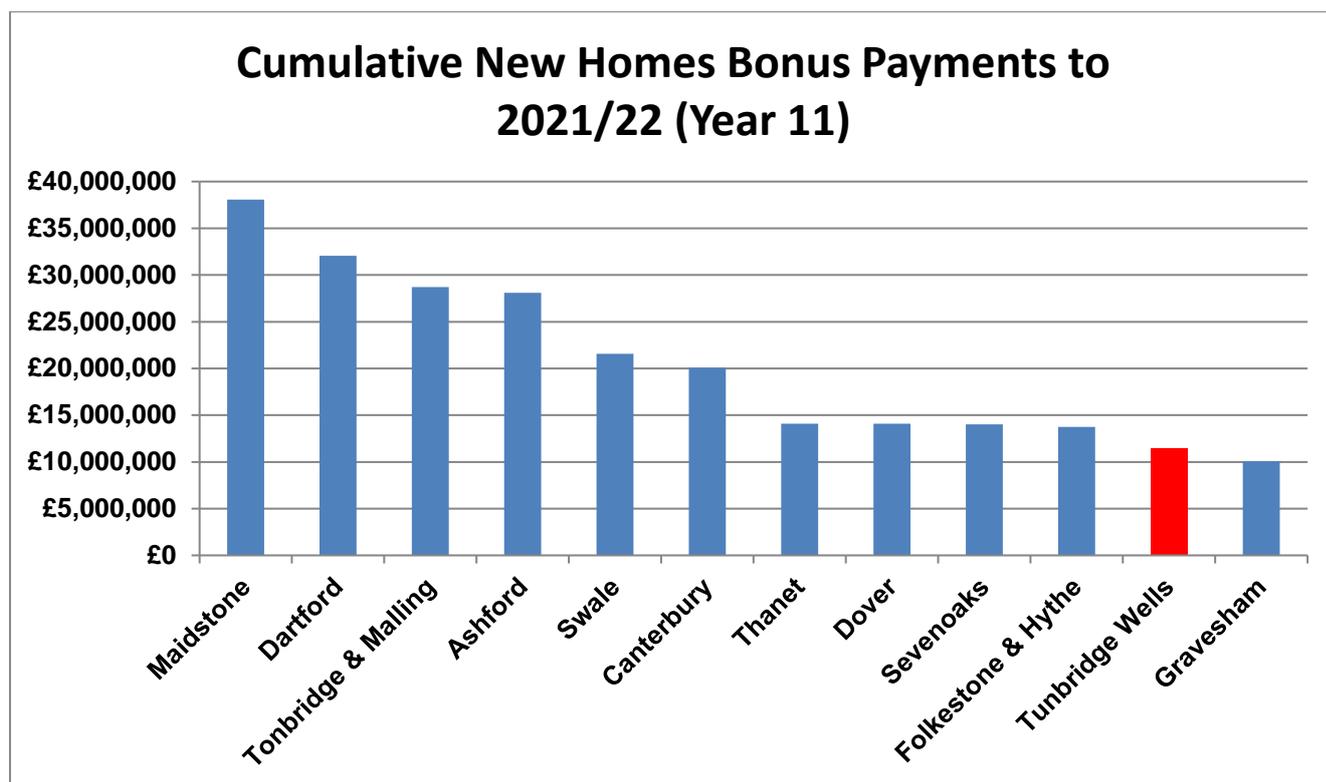
2.9 The NHB scheme was introduced by the Government in 2011 as a “powerful, predictable, permanent incentive to reward the delivery of housing growth”, funded by a £900 million top-slice of Revenue Support Grant.

2.10 Since 2011 various amendments have been made to dilute the financial incentive and in advance of consulting on changes the Government announced last year that in effect the current scheme will be phased out. The Secretary of State has confirmed that there will be a consultation later in the Spring on the ‘future of the housing incentive’ that will move towards ‘a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need’.

2.11 A final new allocation will be made in respect of 2021/22 for £454,000 along with the remaining legacy payments of £406,000 in 2021/22 and £222,000 in 2022/23. The Council has prudently not included NHB within the base budget and transfers any receipts into reserves. The impact of Covid-19 now necessitates using NHB to reduce the use of reserves in balancing the revenue budget. This is illustrated below:

	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	£000s						
Year 11 - Net						454	
Year 10 - Net					571		
Year 9 - Net				222	222	222	222
Year 8 - Net			184	184	184	184	
Year 7 - Net		183	183	183	183		
Year 6	554	554	554	554			
Year 5	135	135	135				
Year 4	96	96					
Year 3	390	390					
Year 2	339						
Year 1	259						
<b>NHB Allocation</b>	1,773	1,358	1,056	1,143	1,160	860	222
<b>NHB in Budget</b>	1,773	1,358	1,056	921			
<b>NHB to/(from) Reserves</b>				222	1,160	(860)	(222)

2.12 Since the creation of NHB this Council has received tens of millions of pounds less funding from NHB than neighbouring councils who have delivered far greater levels of house building which is shown below:



## Retained Business Rates

- 2.13 In July 2020 HM Treasury undertook a call for evidence on the fundamental review of the business rates system. The planned revaluation of business rates has been postponed until April 2023 and is to be based on the property market on 1 April 2021 so will reflect the impact of the Covid-19 pandemic on the commercial rental market.
- 2.14 The reset of the business rates baseline, that determines the Settlement Funding Assessment (SFA) for local authorities has been postponed along with the Fair Funding Review. However, the Government has accepted the Kent Business Rates Pool which includes this council for 2021/22.
- 2.15 The continuation of business rate pooling using the existing baseline will enable this Council to continue to retain a share in the proceeds of business rates growth for a further year. The previous additional retained business rate growth received by this Council is shown below:

Year	Type of Business Rate Retention	Local Growth Share	TWBC Share of Growth £000s
2015/16	Kent Pool	50%	64
2016/17	Kent Pool	50%	595
2017/18	Kent Pool	50%	1,700
2018/19	Kent & Medway Pilot	100%	5,000
2019/20	Kent Pool	50%	806
2020/21	Kent Pool	50%	
2021/22	Kent Pool	50%	
<b>2022/23</b>	<b>System Reset (details TBC)</b>	TBC	<b>8,165</b>

Type of Authority	Local Business Rate Growth Share
Districts	40%
Kent County Council	9%
Kent Fire & Rescue Service	1%
<b>Total</b>	<b>50%</b>
<b>Government</b>	<b>50%</b>

2.16 The Council has prudently not included the proceeds of business rates growth within the base budget and transfers any receipts into reserves. The proceeds of growth will be used to reduce the use of reserves at the end of the financial year as part of the business rate pool reconciliation.

## Financial Strategy – Covid-19 Pandemic

2.17 The Covid-19 Pandemic is a health and financial emergency and unlike other events there is no historical data on which to make reliable forecasts. The crisis is having immediate effects on councils' budgets across the sector because of increases in expenditure and reductions in income from sales, fees and charges (SFCs) along with commercial activities.

2.18 Reductions in council tax and business rates collected this year will feed through to budgets over the medium-term. The Government will compel billing authorities to spread the deficit in the Collection Fund over three years to reduce the impact on the revenue budget in 2021/22.

2.19 From the outset of the crisis the S151 Officer formulated a financial strategy to reflect the fluid nature of the situation and to be used to update projections monthly with Cabinet retaining the ability to revise the budget on a quarterly basis reflecting:

- Actual monthly outturn of income and expenditure compared to budget forecasts,
- Economic data including unemployment, collection rates, businesses activity and local footfall; and
- Government support packages and other announcements.

- 2.20 This approach still holds true and accords with the Government's advice that councils should not make drastic budgetary decisions due to the pandemic and should use their reserves as the government will provide councils with the funds needed.

## **National Economic Forecasts**

- 2.21 The country is experiencing the deepest recession in over a hundred years and forecasters are having difficulty in modelling the severity and longevity of the economic impact caused by the pandemic.
- 2.22 The UK suffered its biggest slump on record between April and June 2020 as coronavirus lockdown measures pushed the country officially into recession. The Office for National Statistics (ONS) said that the economy bounced back in June 2020 as government restrictions on movement started to ease. However, the economic recovery is not being felt by all sectors and different parts of the country are now under further economic and social restrictions.
- 2.23 The Bank of England's (BoE) Monetary Policy Report and the Financial Sustainability Report for August 2020 said that interest rates will be kept low (currently 0.10 per cent) and that the BoE remain ready to act to help households and businesses cope with cash-flow pressures.
- 2.24 The BoE had originally forecast a 'v' shaped recovery with the economy returning quickly to pre-covid levels. However, in August 2020 the BoE tempered its previous optimism over the UK's recovery from the coronavirus crisis, with new forecasts showing that output will not recover to pre-covid 19 levels until the end of 2021. The recent resurgence of coronavirus cast doubt on this forecast and will further threaten the rate of recovery.

## **Local Economic Forecasts**

- 2.25 The impact of coronavirus varies depending on the type of business and location of operation. The borough has been very resilient during previous recessions with the impact being less severe and the rate of recovery quicker than the national situation. However, this recession is like no other and the borough remains exposed to the change in peoples working lives and the impact on the local economy.
- 2.26 The actual reduction to major income streams is shown below and provides an indication of the local economic recovery which appears to be more accurate than national attempts to call the shape of the economic recovery.



2.27 The major influence over the size of the budget deficit for 2021/22 will be determined by the point at which the monthly reduction in income appears to level off. Current projections are that by March 2021 the monthly loss of income will be £250,000 per month and whilst the rate of recovery will not be linear this would indicate a total loss of income of £3 million over the original budgeted levels for the financial year 2020/21. The situation remains fluid and projections will continue to be updated in accordance with the budget strategy.

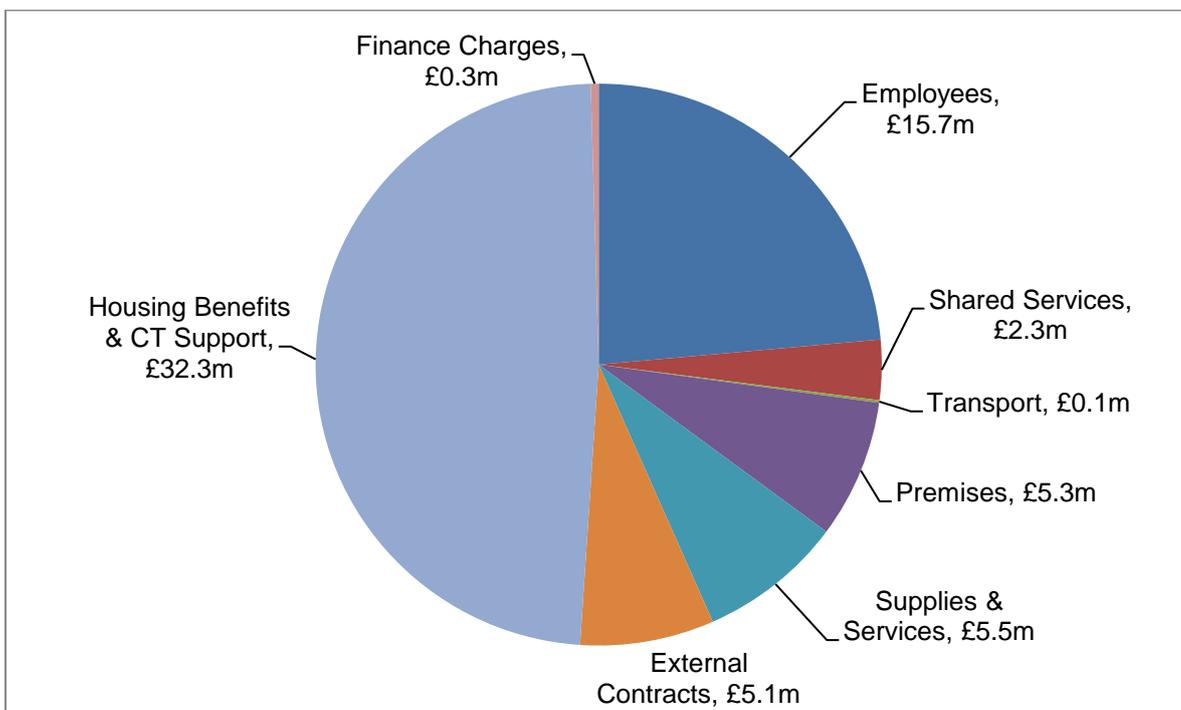
2.28 A summary of local economic data is shown below:

- Unemployment Rate for November 2020 for the borough is 4.4 per cent (3,125 claimants) and the 3rd lowest in Kent where the average is 6.0 per cent.
- Council Tax collection rates to December 2020 are down 1.1 per cent - The Furlough scheme is now set to continue until the end of April 2021.
- Business Rates collection rates to December 2020 are down 0.6 per cent - The government support scheme means that half of all businesses are not required to pay business rates this year – The quarterly rentals due in January 2021 will be crucial along with the Christmas trading period.
- Empty business properties were 335 in December 2020 compared to 314 properties pre-covid.

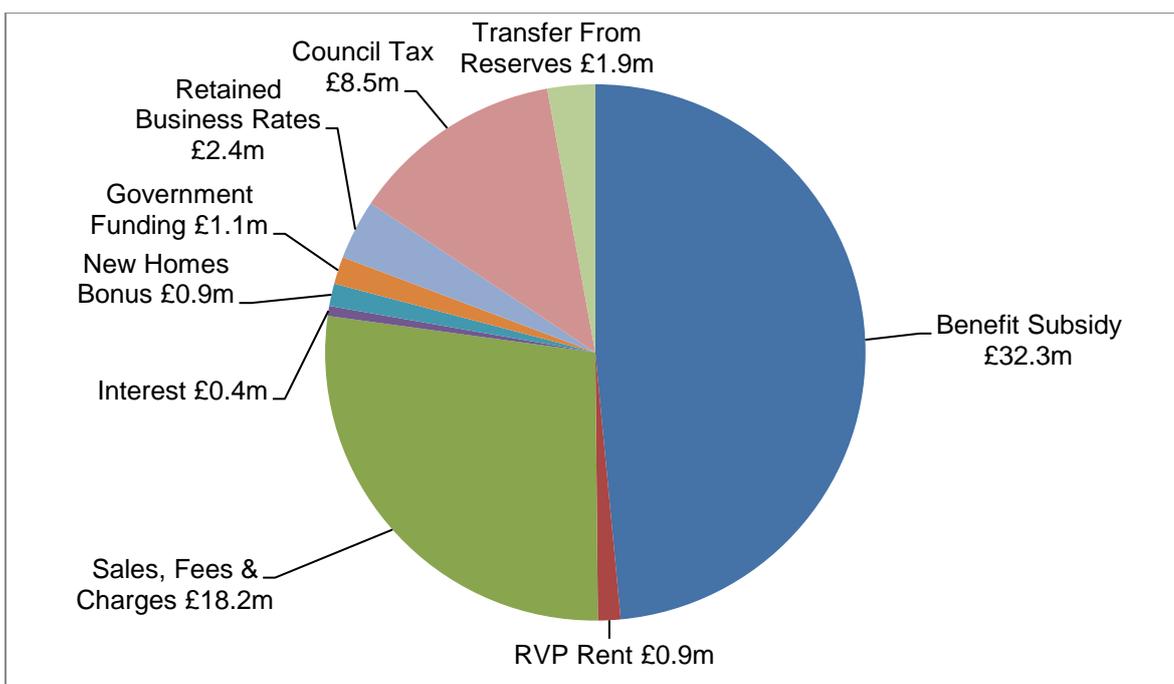
## Budget Breakdown

2.29 The Council provides a diverse range of services across the Borough which is estimated to cost £66.6 million. The services are provided either by contractors, through partnership with other councils or by directly employing staff. The budget is based on an approved establishment of 316.50 Full Time Equivalents (FTEs). The following pie charts show the budgeted revenue expenditure and how this is to be funded.

**Pie Chart of 2021/22 Revenue Expenditure**



**Pie Chart of 2021/22 Revenue Income**



- 2.30 A breakdown of the budget by service is provided in Appendix B. A subjective breakdown of the current budget per cost centre is available on the Council's website.

### Budget Projection 2021/22

- 2.31 The current year's budget forms the base budget upon which projections are made for the next five years to reflect the Council's Five-Year Plan and other strategies. The projection model has been updated to reflect expected changes at this time and is summarised in Appendix A.
- 2.32 The key variances over the current budget are shown below:

<b>Budget February 2021</b>		£000s
<b>Employment Costs</b>		309
<b>Transport</b>		(4)
<b>Premises</b>		
Additional business rates		85
Additional planned maintenance & responsive repairs		90
Additional grounds maintenance costs		120
<b>Supplies &amp; Services</b>		
Additional waste and recycling costs		104
Reduction in photocopying and printing costs		(24)
<b>Income</b>		
Additional Council Tax Income (Net)		(60)
Collection Fund Deficit		65
Additional Garden Waste income		(96)
Reduction in interest		333
Reduction in Sales, Fees & Charges		1,974
Local Services Grant		(101)
New Homes Bonus		(860)
<b>Funding Gap to be met from reserves</b>		<b>1,935</b>

## Budget Strategy

- 2.33 There remains a budget gap for 2021/22 of £1,935,000 which, if left unmanaged, would need to be funded from reserves. In normal times the use of general reserves is unsustainable over the longer-term which led Cabinet in 2012 to set a definition of a balanced budget as follows:

*“Where ongoing expenditure is met from fees, charges, government grant and council tax with only the use of earmarked reserves being used to meet one-off priority expenditure.”*

- 2.34 These are not normal times, and the Council will need to continue to meet as a priority; the impact of the ongoing national emergency, the Council's responsibilities under the Civil Contingencies Act 2004 and the provision of statutory services. It is therefore, appropriate at a time of a national emergency to temporarily use reserves to balance the budget.

## Council Tax Strategy

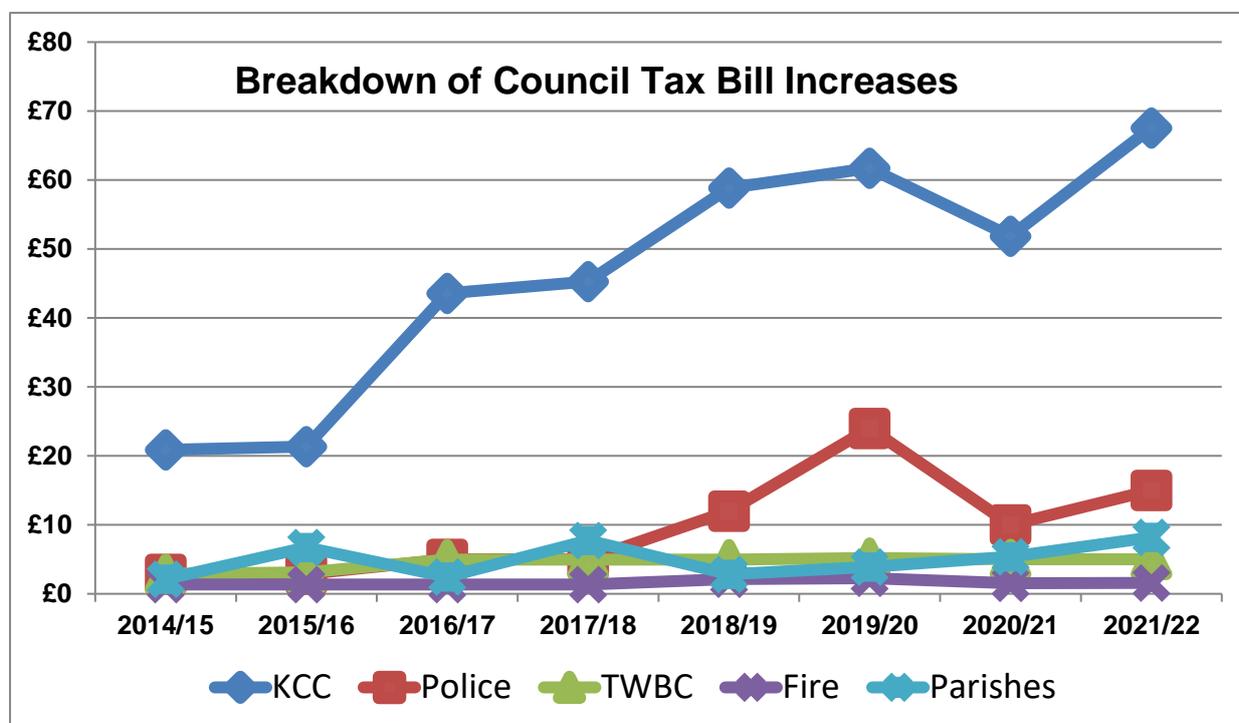
2.35 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold (the 'cap') for triggering a referendum. This is what the government assumes councils will do in their assessment of whether councils have sufficient spending power to delivery local services.

2.36 In previous years, the most efficient authorities such as this Council have been able to increase council tax up to £5.00 a year rather than the cap of 2 per cent. This has been set out in the Provisional Local Government Settlement 2021/22 and is due to be confirmed by Parliament in February 2021. The Government assumes this Council will increase council tax by the maximum permitted in their assessment of this Council's available financial resources.

2.37 The Government has set different 'caps' for the various authorities that comprise the council tax charge appearing on the bills for this borough, as follows.

- Kent County Council, 2 per cent 'core' plus 3 per cent for adult social care
- Kent Police and Crime Commissioner, £15 (7.4 per cent)
- Kent Fire and Rescue Service, 2 per cent
- Parish and Town Councils, no 'cap'

2.38 If all authorities set their council tax level in accordance with their cap this will further widen the differential between the borough council's council tax charge and other council tax raising bodies as shown below:



2.39 The MTFFS assumes that Council Tax will increase by £5 annually. It will be for Full Council in February 2021 to decide the level of council tax.

## **Fees and Charges**

2.40 For the fees and charges which are not imposed by central government a report has been approved by Cabinet on 19 November 2020.

## **Car Parking Charges**

2.41 There are no plans to increase pay and display car parking charges.

## **Staff Savings and Efficiencies**

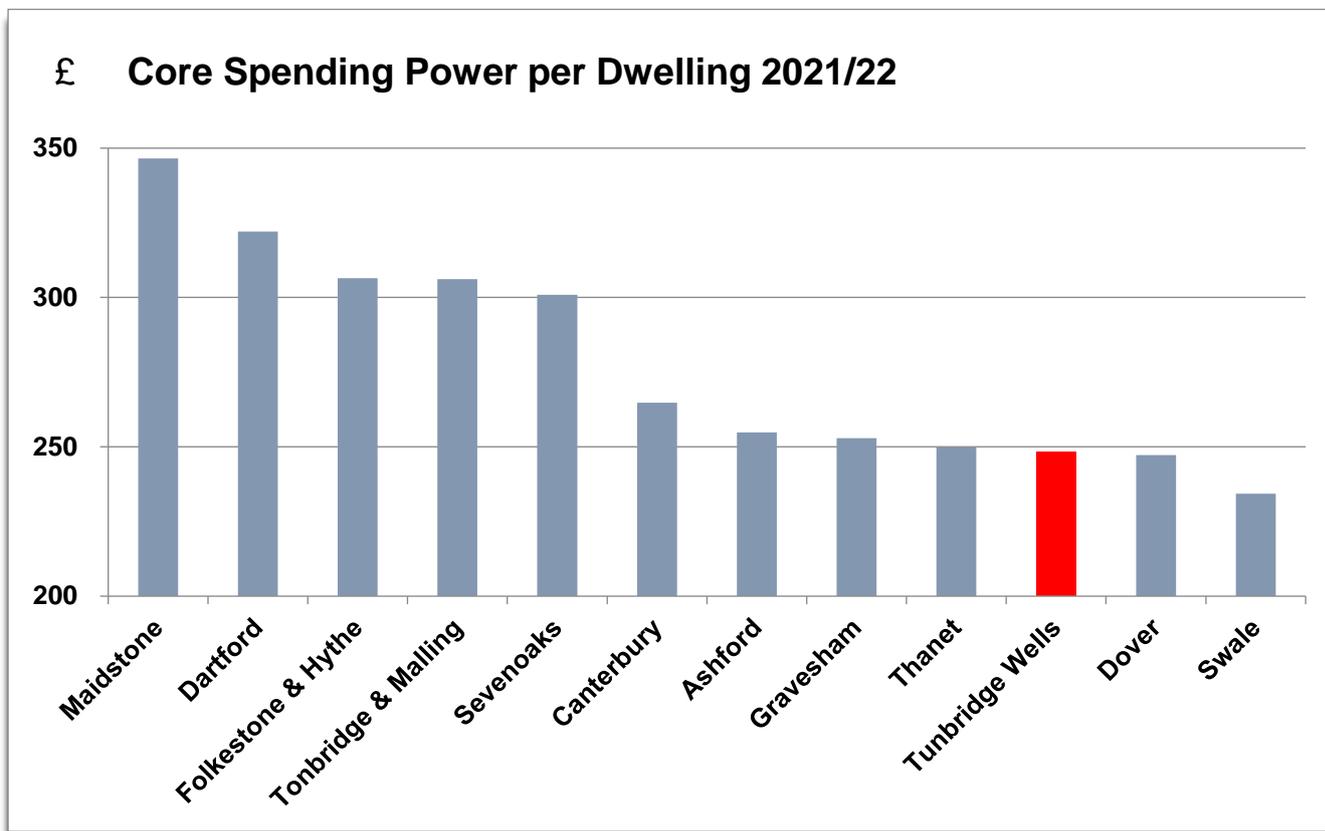
2.42 Directors/Heads of Services and Portfolio Holders have been busy trying to identify further efficiency options to reduce the cost of their services and to increase income. These discussions continue and need refining before they can be submitted for inclusion in the budget or in the case of staffing changes to the General Purposes Committee.

## **Digital Transformation**

2.43 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 into the budget-setting process.

## **Spending Power**

2.44 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 taxpayers. This indicator appears to be the best available for identifying how much each council receives per household to provide local services. The graph below shows that using the Government's own calculation TWBC has the third lowest spending power in Kent at just £245 per household (£239 in 2019/20).



## Capital and Revenue Reserves

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

	Minimum
General Reserves	£4.0 million

2.46 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 2021/22 but a sustainable budget for the future.

## Capital Programme

2.47 At the Full Council meeting on 26 February 2020 the capital programme for 2020/21 to 2023/24 was approved.

2.48 Over the course of the past year the Council has made significant efforts to dispose of surplus land and property identified in the Asset Management Plan (AMP) with a view both to deliver capital receipts and to reduce operational running costs. The AMP provides a framework for further such work over the coming year and this work will be funded from a proportion of the capital receipts received (subject to the necessary approval).

2.49 The four-year capital programme will be rolled forward for another year. Any subsequent additions will be considered using the formal application approval process throughout the year.

2.50 Below is a summary of new applications to the capital programme which will require Full Council to agree in principle the additional total gross project funding of £2,834,600. The decision to procure each scheme and the source of funding will be determined by the S151 Officer.

New Schemes	Total Gross Project Cost £	Earmarked Reserve Funding £	Cap & Rev Initiatives Res. Funding £	External Funding inc. S106 £
<b>A LIST - Health &amp; Safety, essential priority or externally funded.</b>				
Crescent Road Properties	515,000	0	0	(515,000)
Dunorlan Park Play Area	18,730	0	0	(18,730)
North Farm Depot CCTV	20,000	0	(20,000)	0
Southwood Road Field Drainage	17,440	0	0	(17,440)
Financial Management System Upgrade	47,000	0	(47,000)	0
Cinderhill Additional Plot	26,500	0	0	(26,500)
Cinderhill Water Meters	20,130	(20,130)	0	0
Great Hall Car Park Lift	50,000	0	(50,000)	0
Great Hall Car Park Ventilation	35,000	0	(35,000)	0
Hawkenbury Pitch Lighting	15,000	(15,000)	0	0
North Farm Depot Lighting	27,000	(27,000)	0	0
North Farm Lane Resurfacing	38,500	0	(38,500)	0
Warwick Road Car Park	50,000	0	(50,000)	0
<b>TOTAL</b>	<b>880,300</b>	<b>(62,130)</b>	<b>(240,500)</b>	<b>(577,670)</b>

<b>B LIST</b>				
<b>Assembly Hall Works:</b>				
Assembly Hall Lighting Infrastructure	115,000	0	(115,000)	0
Assembly Hall (Windows)	110,000	0	(110,000)	0
Assembly Hall Bar Ventilation	20,000	0	(20,000)	0
<b>Car Parks Works:</b>				
Great Hall Car Park Lighting	50,000	0	(50,000)	0
Meadow Road Car Park	530,000	0	(530,000)	0
<b>Sports Centre Works:</b>				
TW Sports Centre Building Management System	220,000	0	(220,000)	0
TW Sports Centre CCTV	50,000	0	(50,000)	0
TW Sports Centre Gas Heater	90,000	0	(90,000)	0
TW Sports Centre Stair Lift	16,000	0	(16,000)	0
Weald Sports Centre Air Conditioning	15,000	0	(15,000)	0
<b>Others:</b>				
Town Hall (Windows)	505,000	0	(505,000)	0
Cranbrook Museum	27,800	0	(27,800)	0
Crematorium Wall and Paving	205,500	0	(205,500)	0
<b>TOTAL</b>	<b>1,954,300</b>	<b>0</b>	<b>(1,954,300)</b>	<b>0</b>

<b>GRAND TOTAL</b>	<b>2,834,600</b>	<b>(2,194,800)</b>
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2.51 The significant recurring cost of; planned maintenance, responsive repairs and the above capital investment in the Council's Civic Buildings, Car Parks and Leisure Centres is not financially sustainable over the medium-term and a solution that provides value for money needs to be determined.

- 2.52 The Council has no external debt but with reserves largely allocated it will be necessary to commence borrowing to fund additional capital schemes. The Council does have the potential for using new capital receipts, building up usable reserves and access to internal and external borrowing. The determination as to which source of funding is most appropriate is a technical judgement that will be made by the S151 Officer.
- 2.53 In addition to the revenue and capital budgets, 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 and assume that the revenue budget is balanced from 2022/23 without further utilisation of reserves.

	Includes both A List and B List for Capital 2021/22					
	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	4,090	4,090	4,090	4,090	4,090	4,090
Earmarked Reserves	11,261	10,561	6,967	6,492	6,017	5,517
2020/21 Budget Deficit	0	-2,216	-2,216	-2,216	-2,216	-2,216
2021/22 Budget Deficit	0	0	-1,935	-1,935	-1,935	-1,935
Capital Grants & Contributions	1,802	1,802	1,802	1,802	1,802	1,802
Capital Receipts Reserve	1,000	2,570	1,000	1,000	1,000	1,000
Amelia Scott Capital Receipt	3,076	6,131	6,131	6,131	6,131	6,131
Amelia Scott Capital Spend	0	-6,131	-6,131	-6,131	-6,131	-6,131
<b>Total Reserves</b>	<b>21,229</b>	<b>16,807</b>	<b>9,708</b>	<b>9,233</b>	<b>8,758</b>	<b>8,258</b>
Outstanding Financing						
33 Monson Road	-1,567	-1,496	-1,425	-1,354	-1,282	-1,211
Dowding House	-2,049	-1,960	-1,870	-1,781	-1,692	-1,603
The Lodge, Calverley Park	-511	-489	-468	-447	-426	-404
Royal Victoria Place	-1,007	-966	-924	-882	-840	-798
Waste Bins & Caddies	-665	-598	-532	-465	-399	-333
Civic Site Essential Works	0	-1,442	-1,866	-1,789	-1,712	-1,635
Amelia Scott (additional funding)	0	0	-2,000	-1,920	-1,840	-1,760
<b>Total Outstanding Financing</b>	<b>-5,799</b>	<b>-6,951</b>	<b>-9,085</b>	<b>-8,638</b>	<b>-8,191</b>	<b>-7,744</b>

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.

- 2.54 The Council does not have any external debt but with borrowing costs reducing to record low levels the S151 Officer has the flexibility to take advantage of this situation and borrow as an alternative to utilising capital receipts.

## Budget Calculations and Adequacy of Reserves

- 2.55 In accordance with Section 25 of the Local Government Act 2003 the Chief Financial Officer is required to report formally to the Council on the robustness of the estimates and adequacy of reserves. It should be noted that Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget.
- 2.56 At the time of writing this report, I am satisfied with the robustness of the estimates. With regards to the adequacy of the reserves the Council must act within the next 24 months to bring the cost and demand of providing local services to within the level of income that can be generated and to balance the revenue budget without reliance on reserves.
- 2.57 The Council will also need to reduce the drain on reserves from its property assets and to identify an agreed way forward with regards to the Town Hall and Assembly Hall Theatre.
- 2.58 Assets which can be sold and are either generating little income or which are underutilised should be identified for disposal to replenish the Council's reserves to pre-pandemic levels.



Lee M Colyer FCPFA

Director of Finance, Policy and Development (S151 Officer)

- 2.59 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 A will form part of the MTFS Update for 2021/22.

## Risk Factors

- 2.60 It is important to recognise that there are many factors that can affect some budgets and where variances could be significant requiring closer budget management and action; these areas include:

Risk Area	Management
Covid-19 Pandemic	The pandemic is a health emergency which has resulted in the greatest recession in a century. Further economic and health restrictions will continue to have significant and fundamental budgetary implications.

Climate Emergency	In July 2019 Full Council declared a climate emergency. A climate cross-party task force has been established and a dedicated report is due with actions to make the Borough carbon neutral by 2030. No financial requirements have been identified or provided for within the Medium-Term Financial Strategy. The cross-party group agreed to lobby central government to provide additional resources and to grant the necessary freedoms to deliver the above ambition.
Brexit	The decision of the UK to Leave the European Union is classed by the Government as a planned event. Implications continue to be monitored and are incorporated within Risk Scenario 6: Service Interruption on the Council's Strategic Risk Register.  <a href="https://www.kentprepared.org.uk">The latest information is maintained by the Kent Resilience Forum; https://www.kentprepared.org.uk</a>
Growth	The Government is clear that local authorities have a responsibility to grow their local economies through new housing, culture and businesses.  The private sector is very selective in identifying those areas in which to invest and there is tough competition between destination towns. The borough needs to be viewed as 'open for business' and receptive to growth if it is to retain and attract residents and businesses and to deliver wider economic benefits.  It is important to avoid a lack of confidence by the private sector to invest in the borough.
Market Failure	The Council is required to procure services and is reliant on a free and competitive market to obtain best value. In some circumstances the contractors may be unwilling or unable to take on the risk of providing services without significant cost increases in existing or new contracts.
Property Assets	The cost of maintaining property assets is currently around 10 per cent of the Net Revenue Budget and annually consumes around £1- £3 million in capital expenditure. Despite this, some property assets have reached the end of their useful life and are at risk of further responsive costs to keep them operational.
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 funding is now linked to the amount of business rates due 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	<p>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.</p> <p>Demand for some professionals exceeds supply and this is exacerbated by the higher salaries available in London and parts of the private sector.</p>
Parking Income	Dependant on usage and the economic environment.
Planning and Licensing 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 and competition.
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 by 2023/24. No details of how the Land Registry will provide the service have been released.
Investment Returns	<p>New cash deposits are dependent on interest rates and levels of balances.</p> <p>Property investments are dependent on the type of asset and rental demands.</p>
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 the volume of legislation and announcements which can undermine strategic planning and compromise budget assumptions.

## National Policy and Legislative Changes

2.61 The above forecasts are subject to changes from the following government activities:

- The health and financial measures required for the Covid-19 Pandemic
- The implications of the UK leaving the European Union
- The Spending Review 2020
- The Provisional Local Government Finance Settlement 2021/22; and
- The White Paper on Local Government Reorganisation.

## 3. Options Considered

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.

## 4. Preferred Option and Reason

4.1 This report is the third in the formal budget-setting process which will be informed through consultation and research. Decisions on priorities and services will be communicated on a regular basis.

## 5. Consultation on Options

5.1 Early public engagement is essential to arrive at suitable feedback which can be developed in time to be incorporated within the budget. Information has been placed on the Council's website along with articles in Local which allows members of the public, staff and businesses to provide their ideas for how to reduce spending and optimise income while protecting the quality of public services.

5.2 The Cabinet Advisory Boards and the Overview and Scrutiny Committee continue to provide a good source of challenge in developing the budget along with the views of Parish Councils and the Royal Tunbridge Wells Town Forum.

5.3 A budget survey has been undertaken to test the budget strategy of temporarily using reserves and protecting local services for 2021/22, whilst the Council focuses on responding to, and recovering from the national emergency. The survey also tested

the level of council tax increase the public felt appropriate and how to fund the local response to the climate change emergency.

- 5.4 The context was explained that if the local economy does not recover to pre-pandemic levels then the cost of providing local services will exceed the level of income available. The public were asked how they would allocate funding across services that would deliver a balanced budget for 2022/23.
- 5.5 The survey generated a good response rate of 575 (199 in 2020/21) with respondents coming from across the borough. Public opinion supported the temporary use of reserves (91 per cent) and the need to increase council tax by £5 for 2021/22 (74 per cent) and for 2022/23 (78 per cent). Opinion was evenly divided on whether there should be a larger increase in council tax than the proposed £5 to fund local services.
- 5.6 The respondents indicated that they would support a reduction in all council services from 2022/23 to balance the budget apart from Community Safety and Public Conveniences. The respondents significantly reduced the level of funding for the following services compared to the proposed budget for 2021/22:
- Committee, mayoral and member services
  - Museum
  - Planning and Building Control
  - Property and maintenance costs (to reduce this the council will need to sell buildings/assets)
- 5.7 There was strong support for the principle of setting fees and charges locally (69 per cent) rather than being determined by central government which results in services such as Planning, and Licensing being subsidised by local council tax payers.
- 5.8 There was agreement on the importance of climate change and recognition that action would require savings from existing budgets and increases in income, to fund the local response to the climate emergency.
- 5.9 The results of the budget survey are contained in Appendix C and a post code map of respondents is shown in Appendix D.

## 6. Implementation

- 6.1 The budget proposals will be considered by the Finance and Governance Cabinet Advisory Board and the Overview and Scrutiny Committee in January 2021. Final proposals for the budget will be agreed by Cabinet in February 2021 and proposed for approval by Full Council in February 2021.

## 7. Appendices and Background Documents

Appendices:

- Appendix A: Five Year Budget Projections
- Appendix B: Budget by Service
- Appendix C: Budget Consultation Survey Responses
- Appendix D: Budget Survey Postcode Map

Background Papers:

- None

## 8. Cross Cutting Issues

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.	Director of Finance, Policy and Development, 5 January 2021
<b>Finance</b> and other resources	This report forms part of the Council's Budget and Policy Framework.	Director of Finance, Policy and Development, 5 January 2021
<b>Staffing establishment</b>	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Director of Finance, Policy and Development, 5 January 2021
<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.	Director of Finance, Policy and Development, 5 January 2021.
<b>Environment</b> and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 5

		January 2021.
<b>Community safety</b>	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 5 January 2021.
<b>Health and Safety</b>	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 5 January 2021.
<b>Health and wellbeing</b>	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 5 January 2021.
<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.	Director of Finance, Policy and Development, 5 January 2021.