

To: MEMBERS OF THE STRATEGY & RESOURCES COMMITTEE  
Councillors Fisher (Chair), Elias (Vice-Chair), Black,  
Botten, Bourne, Cannon, Childs, Davies, Harwood,  
Jecks, Jones, Lee and Pursehouse.

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Substitute Councillors: Ainsworth, Allen, Orrick and Wren.

c.c. All Other Members of the Council.

24<sup>th</sup> October 2018

Dear Sir/Madam,

**STRATEGY & RESOURCES COMMITTEE**  
**THURSDAY, 1<sup>ST</sup> NOVEMBER 2018 AT 7.30 P.M.**

The Agenda for this meeting of the Committee to be held in the Council Chamber, Council Offices, Station Road East, Oxted is set out below. If a Member of the Committee is unable to attend the meeting, please notify officers accordingly.

Should Members require clarification about any item of business, they are urged to contact officers before the meeting. In this respect, reports contain authors' names and contact details.

If a Member of the Council, not being a Member of the Committee, proposes to attend the meeting, please let officers know prior to the meeting.

Yours faithfully,



Louise Round  
**Chief Executive**

**AGENDA**

1. **MINUTES OF THE MEETING HELD ON THE 11<sup>TH</sup> OCTOBER 2018** (copy herewith)
2. **APOLOGIES FOR ABSENCE** (if any)
3. **DECLARATIONS OF INTEREST** – All Members present are required to declare, at this point in the meeting or as soon as possible thereafter:
  - (i) any Disclosable Pecuniary Interests (DPIs) and / or
  - (ii) other interests arising under the Code of Conduct

in respect of any item(s) of business being considered at the meeting. Anyone with a DPI must, unless a dispensation has been granted, withdraw from the meeting during consideration of the relevant item of business. If in doubt, advice should be sought from the Monitoring Officer or his staff prior to the meeting.

continued ...

4. **TO DEAL WITH QUESTIONS SUBMITTED UNDER STANDING ORDER NO. 29 (2)**
5. **MEDIUM TERM FINANCIAL STRATEGY UPDATE (page 3 and Appendices 'A' to 'C')**

<b>REPORT TO THE STRATEGY &amp; RESOURCES COMMITTEE – 1<sup>ST</sup> NOVEMBER 2018</b> <b>AGENDA ITEM 5</b>	
<b>MEDIUM TERM FINANCIAL STRATEGY UPDATE (MTFS)</b>	
Report of:	Brian Thompson, interim Chief Finance Officer S151-Tel: 01883 732718 e-mail: <a href="mailto:bthompson@tandridge.gov.uk">bthompson@tandridge.gov.uk</a>
Purpose of Report :	This report updates Members on the future funding reforms affecting the Council and provides a draft MTFS for preparing the base budget for 2019/20 plus an update for financial years 2020/21 and 2021/22.
Publication status:	Unrestricted
Recommendations:	That, in accordance with its delegated powers, the Committee determines that :  A. the General Fund budget target for 2019-20 is set at £9,671,162 at this stage and Policy Committees be invited to compile their draft budgets within this overall framework target;  B. a provision for pay award is made of £208,837 that represents an increase to the staffing budget of 2.0%;  C. the budget shortfall gap be noted in the MTFS of £760,103 in 2019/20 (subject to possible removal of negative RSG), £574,582 in 2020/21 and £862,647 in 2021/22;  D. the Committee notes the reporting timetables for the budget process for 2019/20 and the assumptions used in the MTFS;  E. the Committee notes that latest funding forecasts for Business Rates, New Homes Bonus and Council Tax within the MTFS;  F. the Committee notes the progress on the capital programme and potential funding requirements for 2019/20; and  G. the Committee notes the latest update on Funding Reforms their timetable and potential impact upon the Council.
	Appendix 'A' – New Homes Bonus allocation to 2021/22(page 18) Appendix 'B' – Capital programme 2018/19 – 2021/22(page 19) Appendix 'C' - Growth and savings included in the MTFS (page 20)
Background papers defined by the Local Government (Access to Information) Act 1985	Local Government Finance Acts and Finance directives from the Ministry for Housing, Communities and Local Government.

## 1. Background

- 1.1 The Resources Committee approved the current Medium Term Financial Strategy (MTFS) at its meeting on 9 November 2017 and the Council set its annual 2018/19 budget on 22 February 2018.

- 1.2 The Council accepted the Governments four year financial settlement in 2016 which provided a baseline funding position for the period 2016-2020. The next financial year 2019/20 represents the final year of the four year settlement before a number of key financial reforms take place on 1 April 2020 as part of a new mutli-year settlement. Many of these reforms are still being formulated and consulted upon by the Ministry of Housing, Local Government and Communities (MHCLG) and Section 13 of this report updates the Committee on latest developments and timelines.
- 1.3 The Medium Term Financial Strategy aims to maintain the financial health of the Council whilst delivering the priorities in the Council's overall corporate plan. The immediate challenge for the Council is to ensure a balanced budget position within the MTFS for 2019/20, but to also consider the overall funding position through to 2021/22, notwithstanding the funding reform changes detailed in Section 13. As many of these new financial reforms are still yet to be determined, it is likely that the MTFS for years 2020/21 onwards will change again and so further update reports will be made to this Committee as appropriate.
- 1.4 As such, this report can be considered in two parts, firstly an update on the Council's financial position and budget setting process for 2019/20, and secondly an update on the likely funding reforms that will affect financial years 2020/21 onwards and the challenges this may bring for the Council.
2. Budget Process 2019/20–the immediate financial year to consider
- 2.1 In terms of 2019/20, the annual budget cycle process is well underway and Officers are working to a plan which will result in a balanced budget for 2019/20 being delivered by February 2019. The following table provides the Committee with an overview of the budget timetable for financial year 2018/19 :-

<b>Annual Review</b>	<b>Financial Planning cycle</b>
<b>July 2018</b>	<ul style="list-style-type: none"> <li>• End of Year Financial Reports and final external audit of previous years' accounts/financial results</li> </ul>
<b>Aug – Nov 2018</b>	<ul style="list-style-type: none"> <li>• Review of Revenue and Capital Outturn and reserves</li> <li>• Update of Four Year Budget Forecast - MTFS</li> <li>• Set Budget Requirement for 2019/20</li> </ul>
<b>November December 2018</b>	<ul style="list-style-type: none"> <li>• Detailed estimates prepared by Officers and budget options for each Policy Committee considered</li> <li>• Savings and growth options identified</li> <li>• Member thematic budget review meetings(Capital/Fees and charges/Savings-Growth)</li> <li>• Capital bids and appraisals</li> <li>• Capital financing strategy determined</li> </ul>
<b>January 2019</b>	<ul style="list-style-type: none"> <li>• Capital and Revenue service estimates and income/expenditure plans agreed for following year by Policy Committees.</li> </ul>
<b>February 2019</b>	<ul style="list-style-type: none"> <li>• Determine Budget /Council Tax / Business rate level</li> </ul>
<b>March 2019</b>	<ul style="list-style-type: none"> <li>• Publish Approved Budget</li> <li>• Council Tax Information &amp; Billing</li> </ul>
<b>April 2019</b>	Start of new Financial Year / Issue budget

### 3. The Council's funding position for financial year 2019/20

- 3.1 The funding outlook for the Council has changed significantly over the past four years since the last four year Local Government financial settlement was announced in 2017. A very widely expected cut to funding left the Council with no Revenue Support Grant (RSG) from 2017/18 onwards. Furthermore the Council also lost its transitional grant (£130.5k) from 2017/18.
- 3.2 Of perhaps more significance though, was the introduction by MHCLG of a negative RSG (or negative tariff) amount of £729k payable from 2019/20. This negative tariff of £729k can be seen in the MTFs on page 5 (third figure up from bottom of table). This tariff presents the Council (and most Councils nationwide) with a significant challenge in 2019/20 if it has to be funded from existing resources.
- 3.3 The following table below highlights the key changes in baseline funding for the Council over the current four year settlement period and the negative tariff in the final year of 2019/20:-

<b>Government Funding and baseline</b>	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Revenue Support Grant	529	0	0	0
Retained Business Rates – Baseline	1,335	1,362	1,404	1,416
Transitional Grant	139	131	0	0
Tariff Adjustment	0	0	0	-729
<b>Forecast Funding</b>	<b>2,003</b>	<b>1,493</b>	<b>1,404</b>	<b>687</b>

- 3.4 The table highlights an overall £1.32m (65%) reduction in government funding between years 2016/17 and 2019/20 for the Council. It also highlights the negative tariff adjustment of £729k as outlined above. The negative tariff itself was originally introduced to coincide with the retention of additional business rates by Councils to offset the tariff payment. In reality though, the business rates reset will not happen until 2020/21 as the revised scheme is still subject to consultation from MHCLG which will not be issued until December 2018. It is noted that work on Brexit at government department level has delayed the release of consultations such as business rates retention and the fair funding review. Section 13 discusses this further.
- 3.5 In terms of latest live information, MHCLG government has now suggested that its preferred option is to remove the £729k tariff requirement for 2019/20 as it would be seen as unfair to charge this tariff whilst Councils are still waiting for business rate resets in 2020/21. MHCLG has advised that it will make a final ruling as part of the 2019/20 provisional local government settlement on either the 10th or 17th December 2018. Until such time, all Councils have to wait for the announcement; however, it is looking more likely than less that the negative tariff will be removed for 2019/20. At this stage the Council has prudently left the negative RSG in the MTFs forecast.
- 3.6 In terms of horizon scanning, the Chancellor of the Exchequer's Autumn Budget will be announced on 29 October 2018 incorporating the Autumn Statement. These announcements will also form a key part of informing local authorities of the financial landscape for the future. The Government has already indicated that it will be considering a number of priorities including; public sector expenditure levels; new homes bonus; business rates; affordable housing and new housing; housing benefit reform and further changes to Universal Credit. The Autumn Budget will occur after this report is despatched for Committee and so further updates will be reported at the next Committee cycle.

- 3.7 The 2019/20 provisional Local Government settlement will be released after the Chancellor's Budget on either the 10 or 17 December 2018. This settlement is crucial for the Council's 2019/20 budget as it announces key data for the Council's baseline funding level and New Homes Bonus. The results of the latest business rate pilot scheme bids for 2019/20 will also be announced as part of the settlement. Again, these factors may impact upon the MTFS.
- 3.8 In terms of the overall economic climate the position is mixed. The position with regard to Brexit remains uncertain and the financial markets are changeable. Interest rates and inflation levels remain low, however Consumer Price Inflation (CPI) has increased in recent months to 2.5% in September 2018, but overall the forecast remains very mixed. The Council has maximised its returns on its short term investments in the past year and is forecast to generate £847k of interest receipts in 2018/19, despite the challenging conditions. The economic assumptions based on this mixed landscape are now priced into the MTFS and these are explained in Section 6 of this report.
4. Budget Outlook for 2019/20 onwards – MTFS summary
- 4.1 The MTFS has been updated and a financial model has been prepared which summarises the key changes to the draft MTFS over the four year period. The table below summarises the key changes for the MTFS and funding position over that period. The model also highlights the totality of the Council's budget by year and the deficit gaps in funding for each year.
- 4.2 The MTFS includes the negative RSG of £729k and the assumptions made for pay and price increases and other base data as highlighted in Section 6 of this report. Again it must be emphasised that these numbers are draft and subject to change following any announcements in December 2018. Some of the outcomes are still unknown at this stage.

**Medium Term Financial Strategy and Efficiency Plan - latest TDC position October 2018**

	2017/18	2018/19	2019/20	2020/21	2021/22
		£	£	£	£
<b>Net Council budget b/fwd</b>		9,849,670	9,981,848	9,671,162	9,836,471
<i>Inflation allowances &amp; pay increments</i>		381,060	429,500	458,819	468,004
<i>Inflation on fees and charges income</i>			-46,035	-47,186	-48,366
<i>Technical Funding Changes to base budget</i>					
Business Rate adjustment for the collection fund		621,764	-762,480	-250,000	-350,000
Revaluation of Pension Fund		0	0	0	0
Use of Reserves change (use of equalisation reserve for BR and Appeals)		-795,000	876,890	920,480	820,680
Asset / Investment Income - net after costs of borrowing		-300,000	-132,498	174,941	-184,521
New Homes Bonus - change in allocation		374,000	200,000	199,350	337,900
4 Year Settlement - Transitional Grant		131,900	0	0	0
Increase in provisions/reserves for voids and income equalisation		0	150,000	100,000	100,000
Treasury investment income from specified and non specified investments		-190,000	-80,000	0	0
Interest on working balances		0	-4,700	-4,599	4,738
Minimum Revenue Provision and interest costs for capital (net after contributions)		88,754	82,471	11,982	4,320
<i>Committee Growth/Savings (see attached summary)</i>					
Resources/Support Services		-388,900	5,700	1,900	0
Community Services		1,600	476,050	280,003	0
Housing Services GF		18,500	-106,700	-35,600	0
Planning Services		336,500	260,000	-735,000	0
Corporate saving - Insurance		-148,000	0	0	0
<i>Customer First Project</i>					
Project Costs	1,582,900	3,564,218	-3,228,998	-335,200	0
Anticipated Staff Savings	0	-313,000	-921,000	0	0
	1,582,900	3,251,218	-4,149,998	-335,200	0
Application of Development Fund Reserve	-1,089,000	-1,440,038	1,440,038	0	0
Application of General Budget Reserve	-493,900	-1,461,180	1,461,180	0	0
	0	-350,000	350,000	0	0
	0	0	-898,780	-335,200	0
<b>Forecast Net Cost of Services</b>	<b>9,849,670</b>	<b>9,981,848</b>	<b>10,431,266</b>	<b>10,411,052</b>	<b>10,989,227</b>
<i>Funding available to the Council</i>					
Council Tax surplus from Collection Fund	240,300	28,000	125,514	10,000	10,000
Business Rates/S31 Grant	600,000	585,000	600,000	600,000	600,000
Business Rates baseline funding	1,361,670	1,404,000	1,416,000	1,416,000	1,416,000
Base income from existing Council Tax base	7,342,900	7,647,700	7,964,848	8,258,448	8,539,271
Annual increase on existing Council Tax base	184,848	228,732	238,136	247,012	255,288
Growth on new Council Tax base	119,953	88,416	55,464	33,811	34,822
<b>Sub-total Council Tax</b>	<b>7,647,700</b>	<b>7,964,848</b>	<b>8,258,448</b>	<b>8,539,271</b>	<b>8,829,380</b>
Tariff adj negative			-728,800	-728,800	-728,800
<b>Total core funding available to Council</b>	<b>9,849,670</b>	<b>9,981,848</b>	<b>9,671,162</b>	<b>9,836,471</b>	<b>10,126,580</b>
<b>Forecast budget shortfall / gap</b>	<b>0</b>	<b>0</b>	<b>760,103</b>	<b>574,582</b>	<b>862,647</b>

- 4.3 The MTFS model forecasts a budget shortfall for 2019/20 of £760k, however note that this includes the negative RSG tariff of £729k which could be removed in the December settlement by MHCLG. If the tariff is removed then the 2019/20 budget will practically be balanced at this stage of the process, subject to a small funding balance being identified.
- 4.4 Over the next three financial years (inclusive of 2019/20 – 2021/22) the total budget gap is £2,198k. The shortfall deficit includes the following assumptions :
- That inflation is allowed on pay and prices – the detailed assumptions Section 6 of this report provides details of the indices used.
  - That no further New Homes Bonus grant will be received in 2019/20 (apart from legacy payments) and the existing contribution to the base budget will reduce by £200k in 2019/20 to £563k.
  - That previous transitional grant is exhausted and no further rolled in grants will be payable by MHCLG.
  - Technical adjustments are made to the base budget for any revaluation adjustments for the Collection Fund and Pensions Valuation as required by accounting regulations and actuaries. Minimum Revenue Provision (MRP) and revenue costs of capital proposals are also factored in to include spends committed to date. Note MRP is shown net of any contributions.
  - The Business Rate equalisation fund is used in 2019/20 to compensate for any changes to the Collection Fund to ensure any Business Rates income fluctuations from revaluations remain even throughout the MTFS period. The MTFS assumes a level of Business Rates at £600k above baseline (which is general fund S31 grant) for this purpose.
  - No additional Business Rates growth has been assumed in the MTFS which may arise from the Surrey Pilot scheme. Section 8 of this report provides an update on Business Rates and the pilot scheme bid.
  - That growth and savings already identified by Committees is included in the MTFS. A breakdown of the growth/savings plan by Committee is detailed at **Appendix 'C'** (page 20). This is a draft list and may be subject to change.
  - A level of staff savings is factored into the MTFS with the implementation of the Customer First development over the next few years. This is phased over the period of the MTFS to reflect the programme timing and savings plan.
  - A 2.99% increase in Council Tax is assumed and following submission of the Councils annual return to Government in September 2018, the Council Tax base has increased by 257 properties for 2018/19 and represents the increase to achieve an overall Council Tax Band D average base of 38,237 properties. Section 9 of this report outlines all Council Tax assumptions.
  - The negative tariff of £729k remains in 2019/20 to 2021/22 pending any further news and consultation from MHCLG about the fair funding review and future of business rate growth retention by Councils.



- 4.5 Whilst the MTFs provides a base for financial planning, it is clear that the MTFs will change throughout the budget process as officers finalise budget proposals and further information is received and disseminated from MHCLG about likely funding settlement changes. The MTFs may also require further updates and funding solutions to provide budget growth and savings across the Council. There are a number of informal thematic budget meetings with Councillors in November to review these elements of the budget including, savings and growth, fees and charges, income and capital costs.
- 4.6 Policy Committees will also need to consider their savings and growth proposals within the budget timetable framework in order to close the budget gap deficit identified within the MTFs. The overall revenue budget envelope for the Council is £9,671,162 for 2019/20 which provides the initial budget target based upon funds available.
5. 2019/20 onwards addressing the deficit – action required
- 5.1 To fund the MTFs budget gap of £760k there are four options:-
- If the negative RSG (£728k) is removed then the budget will practically self-balance
  - Fund the gap of £760k by a call on reserves
  - Fund the gap of £760k by identifying further savings
  - Fund the gap from a mixture of savings and a call on reserves
- 5.2 In terms of savings and reserves the following options exist:
- **Efficiency savings** – Officers can continue to review service delivery to identify any further efficiencies, income streams and economies of scale. However, business transformation at the Council has already delivered substantial savings as part of the Customer First programme which makes up almost 85% of the overall Council budget.
  - **Income generation** – existing sources of income including discretionary fees and charges are being further examined to identify scope for increases in income. This will be further examined by the informal budget groups open to all Councillors.
  - **Base budget reviews** – this entails reviewing all existing budgets and last year’s closing position to assess whether base budgets are accurate, this will involve post by post costings and review of all variances that resulted in last year’s closing of accounts data to identify any over budgeted areas. This is unlikely to deliver significant savings as the Customer First programme has already reviewed the major elements of the Councils base budget.
  - **Property and Commercial income** – any options available in this category to further maximise income from commercial sources can be examined and opportunities maximised where possible and within permitted regulations and subject to full cost benefit analysis.
  - **The use of reserves** – The Council has earmarked and strategic reserves which can be drawn on as a last resort in order to balance the budget, however options in the other categories above are the preferred solution to the address the budget gap.
- 5.3 It is proposed at this stage that Officers continue to undertake reviews throughout the budget process to help deliver a balanced budget for 2019/20. Proposals will be presented to Policy Committees in January 2019 in line with the budget timetable, with suggestions of how to reduce the £760k shortfall in 2019/20, assuming that the negative RSG tariff is not removed or there are no other funding changes.

- 5.4 Thematic Member budget review meetings in the latter part of November will provide oversight and identify, where possible, savings or growth on a themed basis.
- 5.5 The final MTFS including all latest forecasts will be presented to Strategy and Resources Committee on 17 January 2019 and Council in February 2019 for agreement of the budget and setting of the Council Tax level and various precepts.

6. Assumptions used in preparing the MTFS

- 6.1 The MTFS is under-pinned by a number of assumptions and following table highlights the key formulas that have been used within the MTFS model and forecast:

<b>MTFS ASSUMPTIONS USED</b>	<b>BASE £'000</b>	<b>2019/20 Forecast</b>	<b>2020/21 Forecast</b>	<b>2021/22 Forecast</b>
<b>General Inflation - prices *</b>	3925	2.5%	2.5%	2.5%
<b>Pay bill growth **</b>	10,433	2.0%	2.5%	2.5%
<b>Fees &amp; Charges increased yield on discretionary charges</b>	5,232	1-3%	1-3%	1-3%
<b>Interest rate used – medium term investments</b>		0.80%	0.80%	0.80%
<b>Increase in Council Tax</b>		2.99% increase on Band D	2.99% increase on Band D	2.99% increase on Band D
<b>Band D equivalent Council Tax</b>		215.98	222.44	229.09
<b>Increase in Property Base</b>	37,980	38,237	38,389	38,541
<b>Previous year's budget base</b>		9,981,848	9,671,162	9,836,471

\* allows for unavoidable price inflation only

\*\* assumes 2 year pay proposal under local conditions and agreement.

7. New Homes Bonus

- 7.1 In 2017, the Government changed the criteria for the award of New Homes Bonus (NHB) and as result significantly reduced the amount of NHB payable to Councils. The key change to the criteria was a reduction in the number of legacy years the NHB is payable to four (down from six years before 2018/19). Furthermore, a national baseline was introduced to ensure that the NHB stays focussed on growth. MHCLG set the initial national baseline level at 0.4% below which, NHB will not be paid; this reflects the percentage of housing that would have to be built anyway in the Governments forecast.

- 7.2 The Council has benefited from the receipt of NHB in the past and in 2018/19 it received £1.02m funding (of which £0.76m was used to fund the revenue budget and £0.26m was used to fund the capital programme). This level of funding is expected to reduce for 2019/20 to £0.7m (of which £0.56m will support the revenue budget and £0.14m will support capital). These payments are all based on existing allocations of New Homes Bonus and there is no assumptions built into the MTFS of any additional Bonus being granted by MHCLG for 2019/20 onwards.

- 7.3 The Council may receive additional NHB but there is also a possibility that the government could increase the national baseline (the deadweight) to 0.44% which would potentially reduce any new NHB allocation for 2019/20. The Council will have to wait until the provisional local government settlement is announced in December 2018 to determine the final impact on the MTFS for NHB.
- 7.4 If the Council receives no future New Homes Bonus payments (apart from the legacy payments) then the level of annual funding will drop to just £26k by 2020/21. The MTFS has factored this drop in funding into its forecast to prudently allow for a decline in NHB payments.
- 7.5 A breakdown of the New Homes Bonus legacy payments is attached at **Appendix 'A'** (page 18) to highlight the drop off in NHB payments.
8. Business Rates and the Pilot scheme bid 2019/20
- 8.1 Consultation is currently taking place with MHCLG on the future of business rates. There will a reset of the business rates system in 2020 and it is anticipated that Councils may be allowed to retain some their business rates growth for their local area.
- 8.2 It is not clear yet from MHCLG how much of the business rates growth each Council will be able to keep from 2020. The MTFS thus assumes a flat line of £1.4m for the next years until 2021/22. Various groups including the Surrey District Treasurers group have been responding to the consultation and a clearer picture will arise once the results of the Fair Funding review are known Section 13 discusses this in detail.
- 8.3 In the meantime, MHCLG introduced a “one year” only Business Rate pilot scheme which Councils applied for in December 2017. Surrey as a County was successful in its application and was awarded Pilot Status on a one year only basis for 2018/19. The Pilot gain across the County based upon retaining 100% business rate growth is £22m and TDC will receive a minimum payment of £0.5m above baseline assuming that Surrey as a County collects its planned level of Business Rates. This will be known in March 2019.
- 8.4 There is also a Pilot Bid that has been submitted for 2019/20. MHCLG again invited Councils to apply for a second year (2019/20) of pilot status but this will be for only 75% of Business Rates growth. The results of the pilot bid will be announced as part of the provisional local government settlement 2019/20 in December but most Councils are less confident than the first round bid made in 2018/19. Again there is a minimum above baseline clause in the pilot Bid of £0.5m that the Council could benefit from in 2019/20 if successful.
- 8.5 Due to the uncertainty of the pilot bid outcome, the MTFS assumes no pilot gains in 2019/20.
9. Council Tax assumptions 2019/20
- 9.1 The table below summarises the Council Tax funding assumptions that have been included in the MTFS forecast at Band D equivalent. The table also highlights the Tax base data that has been used in forecast.
- 9.2 The Council Tax base is derived from a return the Council makes to MHCLG every September, which is in essence an audit of the actual number of properties in the District. This return shows a 256 property increase over the previous year, but may change once final property data is known in January 2019.

- 9.3 The Localism Act 2011 requires Councils to hold a referendum if Council Tax increases exceed a level set by the Secretary of State. For 2018/19 the Government lifted the referendum limit of 2% to 2.99% or £5 (whichever is the greater) and this cap is still in place for 2019/20 under the legislation and is not expected to change. Based upon this, the latest Council Tax projections are as follows assuming the 2.99% increase and the revised Council Tax base. It should be noted as a guide that the product of a 1% increase on Council Tax in the district is approximately £79k.

<b><u>Council Tax Base</u></b>	<b>2019/20</b>	<b>CTAX Band D</b>	<b>£</b>
Existing base	37,980.30	209.71	7,964,848.71
Annual increase on existing base	37,980.30	6.27	238,136.48
Growth in base	256.80	215.98	55,463.66
New base	38,237.10	215.98	8,258,448.86

<b><u>Council Tax Base</u></b>	<b>2020/21</b>	<b>CTAX Band D</b>	<b>£</b>
Existing base	38,237.10	215.98	8,258,448.86
Annual increase on existing base	38,237.10	6.46	247,011.67
Growth in base	152.00	222.44	33,810.88
New base	38,389.10	222.44	8,539,271.40

<b><u>Council Tax Base</u></b>	<b>2021/22</b>	<b>CTAX Band D</b>	<b>£</b>
Existing base	38,389.10	222.44	8,539,271
Annual increase on existing base	38,389.10	6.65	255,287.52
Growth in base	152.00	229.09	34,821.68
New base	38,541.10	229.09	8,829,380.60

## 10. Collection Fund Surplus

- 10.1 The Collection Fund is a statutory account into which all Council Tax receipts must be paid. Regulations require that any surplus on the Fund must be used to reduce the level of Council Tax for the following year and cannot be used to support the revenue budget.
- 10.2 In 2018/19, there is likely to be a surplus on the Fund of £125,514 and this is taken into the funding calculations when setting the budget. This has arisen due to a very consistent and high collection rate of 98.8% by Council Tax Officers.

## 11. Use of Reserves

- 11.1 In 2019/20, the S151 Officer will be recommending the creation of two new reserves, firstly an Income Equalisation Reserve and secondly, a voids avoidance reserve. Both of these reserves will be created to ensure the Council has financial cover if any of its investment properties lose a tenant. The Income Equalisation Reserve will also smooth flows in revenue income between years if this situation arises.
- 11.2 Any additional income from the 2018/19 Business Rate Pilot Scheme, expected to be £500k will be transferred to reserves as this was not budgeted in 2018/19 on the grounds of prudence. A reserves forecast statement will be provided in the final Budget report to this Committee in January 2019.

## 12. Capital Programme and Funding

- 12.1 The latest approved capital programme summary is detailed at **Appendix 'B'** (page 19).
- 12.2 The Capital Programme review for 2019/20 is underway and Officers are currently reviewing capital bids and proposals and how these can be funded. The Capital Programme for the Council's General Fund has previously been funded by a combination of borrowing, NHB, revenue contributions, government grants (being the disabled facilities grant) and use of capital receipts.
- 12.3 Reviews and previous bids identify future funding requirements for capital items such as parking infrastructure and also significant investment in new IT Systems for business transformation purposes. Many of these items will generate revenue income streams (or savings) and thus have a pay-back period, i.e. they are invest to save options for the future benefit of the Council.
- 12.4 It is clear from the capital plans outlined above that there will be pressure to fund these schemes in future years given the reductions likely in NHB, revenue funds and capital receipts. It is therefore likely that major capital expenditure items in 2019/20 will have to be funded from external borrowing from the Public Works Loan Board (PWLB). It should be noted that Council has also borrowed from the PWLB to fund its HRA capital plans and latest property developments. The use of borrowing to fund capital items may also release current sources of revenue funding to assist the MTFs revenue budget gap.
- 12.5 The Council's Section 151 Officer is currently evaluating the capital bids and will provide a capital resourcing strategy for the Committee to consider at its meeting on 17 January 2019.

## 13. Funding and Finance Reform

- 13.1 On the 1<sup>st</sup> April 2020 a number of key funding and finance reforms will take place in local government. The two key reforms will be the Fair Funding Review and the Business Rate Reset.

## 14. Fair Funding Review

- 14.1 The current system for resource allocation in local government has been in place for over 10 years and the Fair Funding Review (FFR) will replace this. The MHCLG's intention is to bring in a new system that is a fair, robust and evidence based way of allocating resources blocks to Councils in the medium to longer term.
- 14.2 The FFR is currently being developed by the MHCLG Steering Group together with a number of sub-groups that have also been set up to include representatives from the various local government associations and bodies.
- 14.3 Further FFR consultation is due out over next six months, the intention is to publish final details of the review by summer 2019 in time for the spending round 2019, which will essentially become the government's spending round settlement in 2020/21.
- 14.4 As the FFR is still being developed and consulted upon, Councils cannot quantify the exact implications for their finances and MTFs. What Councils do know however is that the new funding system is likely to be based on a number of key factors:
- There will be a main foundation formula – most likely based upon population statistics from the ONS. It is likely that population will be the main determinant for District Councils.
  - There will also be an Area Cost Adjustment (ACA) – which will factor in labour costs, business rates and factors such as access and remoteness.

- MHCLG are minded not to include cost drivers in the foundation formula for rurality as this give rise to a double count alongside access and remoteness
- In calculating any new Resources Block, factors such as council tax support, pensioner claimants, working age claimants and discretionary relief will be also considered and adjustments made as appropriate.
- Factors such as Councils core spending power (being current Council Tax and Business Rate levels); concessionary travel will also be considered as well as income, including sales fees and charges.

14.5 The next round of MHCLG consultation (due in December 2018) will include questions relating to all of the above and broader issues, including how to measure council tax over a multi-year settlement period.

14.6 Many Councils and local government bodies have already expressed concern about the potential volume of change that FFR will bring from 1<sup>st</sup> April 2020, and MHCLG have already advised that there will transitional arrangements put in place to ensure that there is a smoothing of the new arrangements once they become effective. MHCLG have laid out four key principles for these transitional arrangements:

- There must be stability in the context of wider changes to local government finance
- Transitional arrangements must be clear and understandable
- Must be support for relative losers using deferred gains from winners over a fixed time
- Speed of change varied across Councils based upon revenue raising capacity and funding pressures

14.7 Whilst some FFR factors are now known, a number of key questions exist that Councils need answers to in terms of understanding FFR :

- What will be the quantum for distribution and the final formula – when will this be known?
- What will the ACA look like and how will it work ?
- What will be the effect of Core Funding levels and Council Tax support on resources ?
- How will new transitional arrangements protect Councils ?
- How to measure the new changes and their likely impact on the spending fund assessment for each Council ?
- When will the next consultation be finalised and agreed outcomes known ?
- What will be the final impact on the MTFs ?

14.8 It is clear from the above that much work at MHCLG still needs to be carried out (and consulted upon) before Councils can truly assess the likely impact of FFR for their district. The overall view is that FFR will develop further in the lead up to summer 2019 before primary legislation is effected and the SR19 spending round commences.

- 14.9 The impact for Tandridge District Council (TDC) cannot be quantified at this stage. However it is important to note that TDC currently only receives two sources of support from the government by way of external funding or grant. The two main sources are New Homes Bonus (£1m in 2018/19) and a baseline funding level assessment of £1.4m which reflects business rate income. The Council also faces a potential negative RSG of £729k within its MTFS which is included for each year up to 2021/22. Both these sources could be replaced by the new FFR formula and in the case of New Homes Bonus, the government could roll this into the main formula if it wishes to simplify the funding process.
- 14.10 In summary there are a number of knowns and also many unknowns in respect of the new FFR. It is difficult for Councils to prepare for the change as no actual formulae or figures have been announced by MHCLG. The new FFR is likely to be a completely new regime which cannot be measured or compared to the current settlement system. The new FFR system is likely to use population data as one of its key drivers.
15. Business Rate reset in 2020
- 15.1 The second key funding reform is the Business Rates Reset (BRR) which also commences on 1<sup>st</sup> April 2020.
- 15.2 The current Business Rate system has also been in place for the last ten years and has become a very complicated system based on a three tier split between government, County and District, with a complex system of tariffs, top-ups, relief and appeals processes for payers of Business Rates, plus a complex return system that makes Collection Fund accounting for local government very difficult to plan and budget for.
- 15.3 Some other complexities include:
- It was not envisaged how much variability business rate appeals would cause Councils and the cost of this.
  - A complex suite of S31 grants has been built to compensate Councils for reliefs paid.
  - Revaluation – the current revaluations of hereditaments every five years makes it very difficult to rebalance the system.
  - Devolution – various deals on funding arrangements and the piloting of 100% business rate schemes has added more complexity.
- 15.4 So far MHCLG has responded positively to proposals from local government to simplify the system. The two key criteria for simplification are:
- Separate out mainstream payment of business rates to ensure income in the first instance matched Baseline Need for each financial year.
  - To have a separate reward system for business rate growth.
- 15.5 MHCLG have advised that a further consultation document for the BRR will be issued in December 2018 at the same time as the provisional local government settlement. So far MHCLG has suggested the following in their responses from June 2018:
- A positive response that the best option is to mitigate the impact of appeals on local councils.
  - The rewards would need to match the local government share of growth of 75% of the total.

- Preference of MHCLG is for both growth and decline to be recognised so that there is some element of local risk albeit with a safety net arrangement to protect Councils.
- There would be a simpler levy process for S31 grant in respect of need for a separate levy and safety net payment.
- Tier splits – may be a decision for later in the process.
- Full resets and rolling resets should be ruled out under the new system in 2020/21 to provide a more stable position.

15.6 There have been no new announcements or discussion papers since June 2018 and Councils await further business rate consultation in December 2018.

15.7 The key questions that Councils need answering in terms of the BRR are:

- How much simplification will actually “simplify” the BR system and will migrating to a completely new system bring transitional problems?
- How will Councils be rewarded for business rate growth?
- How future pooling may work and gains arise?
- Will there be a baseline assumption of 75% for Council funding?
- Will there be a central list and how will appeals be provided for?
- What will be the final impact on the MTFs ?

15.8 The impact for this Council cannot be quantified at this stage but it is important to note that TDC currently collects £21m of business rates annually and retains £1.4m of this sum as a result of the current formulae, which allows for tier to the County Councils tariff payments to the government. This Council has gained recently from being part of the Surrey pilot pool for 100% retention of business rates but this was for one year only.

## 16. Financial / risk Implications

16.1 The forecasts within the MTFs provide a sound base for budgeting but may change due to external factors or new legislation. The outcome of the Autumn Statement and Budget and government consultations on allocations on New Homes Bonus, Business Rates and Fair Funding is awaited. Current risks are outlined below:

- i) Outcome to consultation on NHB less favourable than predicted
- ii) Business Rate baseline reductions changes / Pilot bid fails
- iii) Property Investment Fund income generation
- iv) Re-cycling credits – further changes from County
- v) Future costs for the Local Plan and Business Transformation
- vi) Potential cost of purchasing recycling bins upon renewal of waste contract
- vii) Implications on local authorities of policy changes resulting from Chancellor of Exchequer and Brexit in general



- viii) Risk of reduction in business rates income being greater than currently predicted
- ix) Increases / decreases in inflation and interest rates

16.2 The Budget Process timetable outlined in this report ensures that the Council has a robust plan to address these risks and deliver a balanced budget for the Council for 2019/20

17. Legal Implications

Section 151 of the Local Government Act 1972 requires all Councils in England and Wales to make arrangements for the proper administration of their financial affairs. This report satisfies the requirements of this legislation in terms of maintaining a Medium Term Financial Strategy.

18. Equality Impacts

None; decisions at this stage relate to the overall financial situation which will not in themselves disadvantage or discriminate against any group.

----- end of report -----

## New Homes Bonus – Allocations up to 2021-22

	2011-12	2012-13	2013-14	2014-15	2015-15	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Allocation	234	234	234	234	234	234					
Allocation		296	296	296	296	296	0				
Allocation			396	396	396	396	396	0			
Allocation				316	316	316	316	0	0		
Allocation					326	326	326	326	0	0	
Allocation						278	278	278	278	0	0
Allocation							395	395	395	395	0
Allocation								26	26	26	26
Allocation									0	0	0
Total received in year	234	530	926	1,242	1,568	1,846	1,711	1,025	699	421	26
Total to Revenue GF budget	234	530	730	930	1,130	1,330	1,137	763	563	363	26

Total to fund Capital	0	0	196	312	438	516	574	262	136	58	0
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**Note 1.** The above table illustrates new and existing allocations up to 2021/22. Further allocations may be received in the years thereafter, however no future payments are built into the MTFS plan for future years for reasons of prudence. This will be reviewed and reported to Committees as part of the 2019-20 Medium Term Financial Plan and budget process.

**Note 2.** The zeros highlighted in the above table show where previous years legacy payments will no longer be received following the government's financial settlement and reduction in the legacy years.

## APPENDIX 'B'

## APPENDIX 'B'

## CAPITAL PROGRAMME 2017-2018 to 2020-21

10/11/2017 COMMITTEE SCHEMES	Original Programme 2018-19 £	Additions / (Deletions (Resources Feb 2018) 2018-19 £	Updated Programme 2018-19 £	Slippage from 2017-18 £	Revised Programm (After Slippage) 2018-19 £	Estimated Programme 2019-20 £	Estimated Programme 2020-21 £
<b>HOUSING HRA</b>							
SUB-TOTAL HOUSING HRA	4,929,700	6,020,200	10,949,900	385,900	11,335,800	6,118,300	3,689,700
<b>GENERAL HOUSING SERVICES</b>							
SUB-TOTAL GENERAL HOUSING SERVICES	320,000	170,000	490,000	111,300	601,300	320,000	320,000
<b>COMMUNITY SERVICES</b>							
COMMITTEE TOTAL	249,000	4,141,000	4,390,000	2,374,300	6,764,300	515,000	175,000
<b>SUPPORT SERVICES</b>							
COMMITTEE TOTAL	530,000	70,110,000	70,640,000	1,223,600	71,863,600	65,150,000	65,180,000
<b>TOTAL CAPITAL PROGRAMME</b>	<b>6,028,700</b>	<b>80,441,200</b>	<b>86,469,900</b>	<b>4,095,100</b>	<b>90,565,000</b>	<b>72,103,300</b>	<b>69,364,700</b>
<b>Financed By:</b>	<b>2018/19 £</b>	<b>2018/19 £</b>	<b>2018/19 £</b>	<b>2018/19 £</b>	<b>2018/19 £</b>	<b>2019/20 £</b>	<b>2020/21 £</b>
HRA Reserves	4,929,700	6,020,200	10,949,900	385,900	11,335,800	6,118,300	3,689,700
DFG Grant	220,000	170,000	390,000	36,900	426,900	220,000	220,000
General Fund Capital Receipts / Reserves/NHB	299,000	(34,000)	265,000	149,300	414,300	315,000	225,000
Housing Capital Receipts	100,000	0	100,000	74,400	174,400	100,000	100,000
Borrowing	480,000	73,985,000	74,765,000	3,448,600	77,913,600	65,350,000	65,130,000
	<b>6,028,700</b>	<b>80,141,200</b>	<b>86,469,900</b>	<b>4,095,100</b>	<b>90,265,000</b>	<b>72,103,300</b>	<b>69,364,700</b>

## APPENDIX 'C'

## APPENDIX 'C'

<b>Growth/Saving (-) Item by Department</b>	<b>Description</b>	<b>2019/20</b>	<b>2020/21</b>
Resources	Loss of HB Admin Grant	5,700	0
Community Services	Loss of Recycling Credits claim and garden waste credits	258,068	258,068
	Refuse costs for additional properties	16,000	16,000
	New wheelie bins – revenue costs of contract operational requirements	195,000	53,000
	Material Reformation Facility requirement	16,482	0
	Garden Waste club income	0	-48,100
	Small grants reduction to recipients	-10,000	0
Housing General Fund	DBC	-106,700	-35,600
Planning Services	Local Plan, Counsels Fees, consultancy and advice	120,000	-735,000
	CIL review, evidence and examination	140,000	
<b><u>Total Growth / Savings</u></b>		<b><u>634,550</u></b>	<b><u>-491,632</u></b>