

## Policy and Resources Committee

26<sup>th</sup> July 2016

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

**No**

### Medium Term Financial Strategy and Efficiency Plan – update

<b>Final Decision-Maker</b>	Council
<b>Lead Head of Service</b>	Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Director of Finance and Business Improvement
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	All wards

#### **This report makes the following recommendations:**

1. To note progress with the Medium Term Financial Strategy and Efficiency Plan
2. To propose further areas to be explored
3. To note that Members will be consulted on prioritisation of savings ideas.

#### **This report relates to the following corporate priorities:**

The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Policy and Resources Committee	29 <sup>th</sup> June 2016
Policy and Resources Committee	26 <sup>th</sup> July 2016
Policy and Resources Committee	7 <sup>th</sup> September 2016
Council	21 <sup>st</sup> September 2016
All Service Committees	In November 2016
Policy and Resources Committee	14 <sup>th</sup> December 2016
All Service Committees	In January 2017
Policy and Resources Committee	15 <sup>th</sup> February 2017
Council	1 <sup>st</sup> March 2017

# Medium Term Financial Strategy and Efficiency Plan – update

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report sets out progress to date with development of the Medium Term Financial Strategy for the five years 2017/18 to 2021/22 and an Efficiency Plan in response to the government's four year local government finance settlement covering the years 2016/17 to 2019/20. The report outlines the work still to be done before the Council can submit an Efficiency Plan to meet the deadline date for acceptance of 14<sup>th</sup> October 2016.
  - 1.2 Updating the Medium Term Financial Strategy and submission of the Efficiency Plan are necessary steps towards agreeing a budget for 2017/18 and setting next year's Council Tax, decisions which the Council is due to make on 1<sup>st</sup> March 2017.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Medium Term Financial Strategy is a five year rolling strategy that underpins the Council's revenue and capital spending plans. The Medium Term Financial Strategy is ultimately approved by full Council.
- 2.2 This year, the regular cycle for production of a Medium Term Financial Strategy coincides with a requirement set by Government for production of an Efficiency Plan. The Government made an offer of a fixed, four year local government finance settlement in February 2016, covering the years 2016/17 to 2019/20. The offer to each local authority is conditional on the authority producing and publishing on its website an Efficiency Plan that will outline how it will achieve its objectives within the available resources set out in the settlement.
- 2.3 The Government has not set out a template for the Efficiency Plan. The then Secretary of State for Communities and Local Government stated when announcing the four year settlement that the offer and the production of an Efficiency Plan are intended to be 'as simple and straightforward as possible . . . [it] is not about creating additional bureaucracy'.
- 2.4 Regardless of the Government's requirements, it is suggested that a local authority would wish for its own satisfaction to be assured that the Efficiency Plan is robust and sufficiently detailed and credible to demonstrate that the authority can manage within the projected levels of funding.
- 2.5 A local authority is not obliged to accept the offer set out in the four year local government finance settlement. However, the risk in not accepting the offer is that any subsequent year's final settlement may be less favourable than that outlined in February 2016. This risk applies equally to authorities in receipt of Revenue Support Grant (RSG), and those like

Maidstone that are not scheduled to receive RSG in future years. This is because the local government finance settlement comprises not only RSG but also arrangements for redistribution of business rates income. Accordingly, given what is known currently, Officers' recommendation to Members would be that the Council accepts the offer set out in the four year finance settlement and submits an Efficiency Plan.

2.6 A report to Policy and Resources Committee on 29<sup>th</sup> June 2016 set out revenue budget projections for the five year period covered by the Medium Financial Strategy, together with the underlying assumptions. This indicated that the Council faced a budget gap which would reach between £3.4 million and £5.1 million by the end of the five year period. The projected budget gap grows over the five years. It is important to note that in the first of the five years, 2017/18, the budget gap will amount to between £1.2 million and £1.4 million.

2.7 Consideration also needs to be given to potential pressures, including:

- Cost of providing temporary accommodation
- Cost of dealing with planning and enforcement appeals
- Any failure to deliver existing savings targets
- Spending pressures arising from external economic factors, eg increased inflation, increases in level of pension contribution
- Unfunded new responsibilities.

To the extent that these cannot be addressed, the savings target will increase still further.

2.8 Some initial work has been undertaken to identify steps that can be taken to close the budget gap. However, confirmed savings proposals still fall well short of the amount needed. Accordingly, a number of options need to be explored, as set out below.

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### **3. IMPACT OF RECENT DEVELOPMENTS**

3.1 It is very likely that the result of the EU referendum and the formation of a new government will affect the assumptions underlying the Medium Term Financial Strategy, but at this stage it is too early to say what the impact will be. The impact will be felt both at the level of the UK economy as a whole, and on the individual funding arrangements of local authorities like Maidstone.

3.2 So far as the overall economic environment is concerned, if there is a slowdown in economic growth, there could be an impact on the Council's business rates income and greater pressure on services such as housing. The fall in the value of sterling against other currencies could lead to increased inflation. The report to the Policy and Resources Committee on 29<sup>th</sup> June included a number of assumptions about inflation. Broadly, it was assumed that inflation would remain low, with pay increases of 1% per annum and a range of possible increases for fees and charges, of which the mid-range was also 1%.

- 3.3 The offer of a fixed four year funding settlement was subject to withdrawal 'under exceptional circumstances'. Brexit could be interpreted as constituting exceptional circumstances. Against this, early indications from the new government are that the pressure for further spending cuts may be somewhat less in the short term, which may be positive for local government funding.
- 3.4 It is clear that the assumptions underlying the Medium Term Financial Strategy will need to remain under review and may have to be updated as new information emerges.
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#### **4. AVAILABLE OPTIONS**

- 4.1 There are a range of potential approaches to closing the budget gap. Common approaches taken by other authorities include the following.

##### Stimulating local economic growth

Council tax, Business rates and New Homes Bonus account for the majority of the Council's total income. By adopting policies that stimulate business and housing growth, the Council can increase income. However, the pay-off takes time to benefit revenue budgets and the benefits depend on constraints imposed by central government, such as re-allocation of business rates income between local authorities.

##### Maximising existing sources of income

The Council already benefits significantly from Parking and Planning fee income, as well as a range of other sources of income. There may be scope for increasing income further, dependent on the trade-off between volume and market share and pricing.

##### Trading services

Many of the services delivered by the Council can be traded with other local authorities and other third parties. Maidstone has a track record in this area, for example with commercial waste, and continues to develop new initiatives such as debt recovery in the Revenues and Benefits service.

##### Sharing services

Again, the Council has a good track record of sharing services. There may be further services, eg procurement, where there remains potential, either to share the service with existing Mid Kent Services partners or more widely.

### Invest to save and/or to generate income

Most Councils are in a position to invest, either by using cash balances or borrowing, normally through the Public Works Loan Board. Property investments, whether for housing or for commercial purposes, have the potential to generate income above and beyond the cost of servicing and repaying any borrowing.

### New sources of income

The flexibility now available to local authorities allows the opportunity to develop entirely new sources of income. These would typically seek to exploit an existing skill or asset of the Council, such as its reputation in the local area, or existing trading relationships, such as those with customers of its garden waste collection service.

### Service redesign

Many Maidstone services have been reconfigured over the past few years to save money. A major initiative currently under way concerns the Contact Centre, but there may be further opportunities.

### Removal of subsidy / grant

The Council supports a range of services through subsidies or grants. It needs to consider whether these services could continue to be provided without a grant, or with no grant.

### Service reduction

The reduction in grant income faced by local authorities over the past six years has forced most councils to explore which services can be reduced whilst still meeting their statutory obligations. Even if a service is notionally 'statutory', there is often scope for reducing the quality or frequency of the service. Councils have many statutory obligations that they will only seek to meet if there is public pressure to do so, or if there is a risk of a successful legal challenge if the council fails to deliver the service.

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## **5. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 5.1 It is suggested that there is no single approach, of those outlined above, which will enable the council to close the budget gap. Instead, a combination of all is likely to be necessary.
- 5.2 The choice of measures needs to depend on:
- an overall assessment of the Council's priorities
  - an assessment of what measures are in fact viable, in light of the skills, resources and capacity available.

- 5.3 Heads of Service have been asked to put forward budget proposals relating to their areas. They have been charged with submitting radical ideas, going above and beyond the minimum target saving required, in order that meaningful choices can be made between the different options.
- 5.4 At the same time, it will be necessary to consider the services offered by the Council, and to prioritise them, distinguishing between services where there is an overwhelming imperative that they be delivered, those that Members would like to be delivered, those that are of lower priority, and those that are not needed at all.
- 5.5 We plan a structured process for the prioritisation of budget proposals, involving consultation with Members, enabling a report back to Committee with a draft Efficiency Plan at a special meeting on 7<sup>th</sup> September 2016.

## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 The background to the Medium Term Financial Strategy and Efficiency Plan was described in a briefing meeting for all Members, held at the Town Hall on 4<sup>th</sup> July 2016. The meeting was well-attended and there was a wide-ranging debate about the way forward. This has confirmed the need to take a comprehensive and holistic approach to the development of budget proposals.
- 6.2 As set out above, further engagement with Members is now proposed, prior to reporting back to Committee on 7<sup>th</sup> September 2016.

## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 Following consideration of the draft Efficiency Plan on 7<sup>th</sup> September 2016, any necessary amendments will be made and it will be considered by Council on 21<sup>st</sup> September 2016. Subject to Council's approval, it will then be published by 14<sup>th</sup> October 2016.
- 7.2 The proposals in the Efficiency Plan will then form the basis of the budget proposals for the financial year 2017/18. These will be considered by Service Committees in the Autumn and will in due course be considered by Council when setting a budget on 1<sup>st</sup> March 2017.

## **8. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The Medium Term Financial Strategy and the budget are a re-statement in	Director of Finance and

	financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Business Improvement
<b>Risk Management</b>	Ensuring that there are sufficient resources to meet the Council's strategic priorities is a key risk. The Medium Term Financial Strategy helps to ensure that this risk is managed.	Director of Finance and Business Improvement
<b>Financial</b>	The Medium Term Financial Strategy and the Efficiency Plan detailed financial plans and budgets, and all the financial activities of the Council. It is important the Committee gives due consideration to the financial consequences of the proposals set out in this report.	Director of Finance and Business Improvement
<b>Staffing</b>	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
<b>Equality Impact Needs Assessment</b>	The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
<b>Environmental/Sustainable Development</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
<b>Community Safety</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
<b>Human Rights Act</b>		

<b>Procurement</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
<b>Asset Management</b>	The Medium Term Financial Strategy is intended to ensure that resources are available for asset management in line with the Council's corporate objectives.	Director of Finance and Business Improvement

## **9. REPORT APPENDICES**

None

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## **BACKGROUND PAPERS**

Medium Term Financial Strategy 2017/18 and Efficiency Plan – Report to Policy and Resources Committee, 29<sup>th</sup> June 2016

'Maidstone Borough Council's Financial Position and the Way Forward',  
Presentation to Members, 4th July 2016