

# POLICY AND RESOURCES COMMITTEE

16 December 2020

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

**No**

## Medium Term Financial Strategy 2021/22-2025/26 - update

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

### Executive Summary

The Committee considered a draft new Medium Term Financial Strategy (MTFS), covering the five-year period 2021/22 to 2025/26, at its meeting on 25<sup>th</sup> November 2020. The Chancellor's Spending Review, announced on the same day, contained a number of measures which are relevant to the MTFS. These are described here so that the impact on the MTFS can be considered.

Details about how the Spending Review will impact individual local authority finances are set out in the draft Local Government Finance Settlement, which is due to be published in the week commencing 14<sup>th</sup> December. A verbal update will be provided on this if it is available by the time of the meeting on 16<sup>th</sup> December.

### This report makes the following recommendations to this Committee:

1. That it notes the update set out in this report.

### Timetable

<b>Meeting</b>	<b>Date</b>
Policy and Resources Committee	16 December 2020
Policy & Resources Committee	10 February 2021
Council	24 February 2021

# Medium Term Financial Strategy 2021/22-2025/26 - update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	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.	Section 151 Officer & Finance Team
<b>Cross Cutting Objectives</b>	The MTFS supports the cross-cutting objectives in the same way that it supports the Council's other strategic priorities.	Section 151 Officer & Finance Team
<b>Risk Management</b>	This has been addressed in section 4 of the report.	Section 151 Officer & Finance Team
<b>Financial</b>	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Section 151 Officer & Finance Team
<b>Staffing</b>	The process of developing the Strategic Plan and the associated budget strategy will identify the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
<b>Legal</b>	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</p> <p>The legal implications include compliance with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.</p> <p>In considering the impact of Covid-19 on the Council's financial position in 2020/21, consideration should be given to the Council's legal duty to set a balanced budget.</p>	Head of Mid Kent Legal Partnership ss

	Appropriate remedial action should be taken if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. Having received a S114 report, members are obliged to take all reasonable practical measures to bring the budget back into balance.	
<b>Privacy and Data Protection</b>	Privacy and Data Protection is considered as part of the development of new budget proposals. There are no specific implications arising from this report.	Policy and Information Team
<b>Equalities</b>	The MFTS report scopes the possible impact of the Council's future financial position on service delivery. When a policy, service or function is developed, changed or reviewed, an evidence-based equalities impact assessment will be undertaken. Should an impact be identified appropriate mitigations will be identified.	Equalities and Corporate Policy Officer
<b>Public Health</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Public Health Officer
<b>Crime and Disorder</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
<b>Procurement</b>	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team

## 2. INTRODUCTION AND BACKGROUND

- 2.1 A draft Medium Term Finance Strategy for the five year period 2021/22 to 2025/26 was considered by the Committee at its meeting on 25<sup>th</sup> November 2020. The purpose of the MTFS is to set out in financial terms how the Council intends to deliver its Strategic Plan, given its capacity and capability. The draft new MTFS builds on the existing MTFS, but reflects the impact of

Covid-19 by incorporating a re-prioritisation of Strategic Plan objectives, together with proposals for transformational budget savings to address the financial challenges that the Council faces.

- 2.2 The MTFS incorporates revenue projections for the five year planning period. Key assumptions made in the projections were as follows.

Council Tax – It was assumed that the government continues to set a limit of 2% to increases, above which a referendum would be required (as in 2020/21), and that the Council increases Council Tax to this limit.

Business Rates - The Business Rates baseline, which dictates the amount of business rates that local authorities may retain locally, will be increased in line with inflation in 2021/22, as part of the expected one year roll forward of the existing 2020/21 financial settlement.

Covid-19 – In the neutral scenario, income from Council Tax, Business Rates and Sales, Fees and Charges will bounce back from the levels experienced in 2020/21 but full recovery will not be seen until 2022/23. There will be no further general government compensation for the effects of Covid-19 after the end of the current financial year.

The impact on these key assumptions of the Chancellor's Spending Review are set out below.

### **Chancellor's Spending Review**

- 2.3 The Chancellor announced the results of his Spending Review on 25<sup>th</sup> November. The Review took place in the context of a health emergency and the deepest recession on record, with the Office for Budget Responsibility projecting a GDP reduction of 11.3% in 2020. The Chancellor stated that, in response, the government would ensure that people's lives and livelihoods would be protected and public services would be strengthened. A 'once-in-a-generation investment in infrastructure' was promised in order to create jobs, grow the economy, and increase people's pride in place.
- 2.4 Specifically, the Spending Review confirmed an additional £38 billion for public services in 2020/2, bringing total spending on the Covid-19 response to over £280 billion. The Spending Review also provided a further £55 billion of support for the public services response to Covid-19 next year, targeted at controlling and suppressing the virus, increasing support to public services and supporting jobs and businesses.
- 2.5 The additional expenditure announced by the Chancellor was focused on specific areas, with two thirds of the £15 billion cash increase in departmental expenditure going to the NHS, schools and defence. Savings were made elsewhere, with a cut of £4 billion in overseas aid and a pay freeze for public sector workers earning more than £24,000 (other than in the NHS).
- 2.6 The government's preferred measure of local authority spending is 'core spending power', which the Spending Review states will increase by 4.4% in 2021/22. Most of this increase is accounted for by the additional Council

Tax that the government expects local authorities to raise. The 2% referendum limit was confirmed in the Spending Review, along with a 3% increase in the Social Care precept for upper tier authorities. It is assumed in the government's calculations that local authorities will increase Council Tax by the maximum permissible.

### **Impact on key MTFS assumptions**

- 2.7 Confirmation of the 2% referendum limit allows Council Tax to be increased by this amount, as envisaged in the draft MTFS and in line with the principle agreed by Policy and Resources Committee on 25<sup>th</sup> November.
- 2.8 The government is carrying out a fundamental review of the business rates system and will be publishing its conclusions in spring 2021. In the meantime, the existing business rates regime will remain in place. In order to help business rates payers, the multiplier will be frozen, but local authorities will be compensated for this. The effect will be that the share of business rates income that we receive will increase by inflation, as anticipated. However, the current business rates holiday for businesses in the leisure, retail and hospitality sector will come to an end at the end of March 2021, which may make paying business rates in full again a challenge for many businesses.
- 2.9 The specific elements of the further Covid-19 support announced in the Spending Review which are particularly relevant to the Council are as follows.
- A further allocation of £1.55 billion for unringfenced funding to cover Covid-19 related expenditure. So far there are no details of the amounts to be allocated or how it will be distributed.
  - An extension of the scheme that provides compensation for 75% of lost Sales, Fees and Charges, above a budget variance threshold of 5% for the first three months of 2021/22.
  - A new scheme to fund 75% of irrecoverable losses in business rates and council tax. Details of the scheme have still to be announced, and it is likely that the Council will have to take all reasonable steps to recover amounts due before it can claim under the scheme.

These measures will help to reduce the budget gap in 2021/22.

- 2.10 The government announced that, as anticipated, it would alter Public Works Loan Board (PWLB) lending terms to prevent the use of PWLB borrowing for investment property bought primarily for yield. In return it will reduce PWLB lending rates by 1%. Maidstone's capital programme is focused on the Council's service priorities, so is not restricted by the change in lending terms. Given current low interest rates, this will reduce the Council's expected cost of borrowing.
- 2.11 The existing New Homes Bonus scheme will be maintained for a further year, but with no new legacy payments. We will therefore get compensated for new homes completed in the 12 months to Autumn 2020 for just one year,

rather than for six years as in the original iteration of the New Homes Bonus. The government will consult on reforms to the New Homes Bonus shortly, with a view to implementing reform in 2022-23. Hitherto, Maidstone Borough Council has used the New Homes Bonus to help fund its capital programme, so these changes do not have a direct impact on the revenue account.

- 2.12 A number of further initiatives in the Spending Review have the potential to support service delivery in Maidstone, such as additional funding to reduce rough sleeping and homelessness. If possible we should take the opportunity to bid for the funds described in the Spending Review to protect the environment and to promote a 'Green Industrial Revolution' such as the Nature for Climate Fund and grants for zero or ultra low emission vehicles.
- 2.13 Full details as they affect individual local authorities will be included in the draft Local Government Finance Settlement, which is due to be announced in the week commencing 14 December. A verbal update will be provided if it is available by the time of this meeting.

### **Conclusion**

- 2.14 The Spending Review contains a number of elements which will have a positive impact on the projections set out in the draft MTFS, although they will not eliminate the budget gap. Updated Strategic Revenue Projections will be finalised once the Local Government Finance Settlement is available.
- 2.15 The Spending Review recognises the ongoing impact of Covid-19 by setting aside further unringfenced funding for local authorities. This is welcome, given that Kent is currently in Tier 3 and any recovery from Covid-19 is likely to be gradual. The Council will need to make effective use of any resources that become available, whilst taking care to balance resources received against the financial pressures that we face.

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## **3. AVAILABLE OPTIONS**

- 3.1 Report is for noting only.

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## **4. RISK**

- 4.1 There are a number of risks surrounding the Council's financial position. In order to address these in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.
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## **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 Policy and Resources Committee and the three Services Committees have been consulted on the draft MTFS. The outcomes will be reported back to Policy & Resources Committee when it is asked to consider the MTFS again for recommendation to Council at its 11 February meeting.
- 5.2 A survey has recently concluded, in which residents were consulted on what they wish to see in the budget. This was included in the reports to Committees on the draft MTFS.

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

- 6.1 The timetable for developing the Medium Term Financial Strategy and budget for 2021/22 is set out below.

<b><i>Date</i></b>	<b><i>Meeting</i></b>	<b><i>Action</i></b>
25 November 2020	Policy and Resources Committee	Consider update on the Strategic Plan and draft MTFS
December 2020	Service Committees	Consider draft MTFS
December 2020		Finalise detailed budget proposals for 2021/22
January 2021	Policy and Resources Committee, Service Committees	Consider the updated Strategic Plan and 21/22 budget proposals
10 February 2021	Policy and Resources Committee	Agree Strategic Plan, MTFS and 21/22 budget proposals for recommendation to Council
24 February 2021	Council	Approve Strategic Plan and 2021/22 budget

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## **7. REPORT APPENDICES**

None.

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## **8. BACKGROUND PAPERS**

None.