

Medium Term Financial Strategy and Budget Proposals

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| Final Decision-Maker | Council |
| Lead Head of Service/Lead Director | Mark Green, Director of Finance and Business Improvement |
| Lead Officer and Report Author | Mark Green, Director of Finance and Business Improvement |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report forms part of the process of agreeing a budget for 2021/22 and setting next year's Council Tax. Following consideration by this Committee at its meeting on 25 November 2020 of the draft Medium Term Finance Strategy for 2021/22 – 2025/26, this report sets out budget proposals for services within the remit of the Committee and the other Service Committees. This Committee will then consider at its meeting on 10 February 2020 comments from other Service Committees and will finalise the budget proposals for submission to Council.

This report makes the following recommendations to this Committee:

1. That the revenue budget proposals for services within the remit of this Committee, as set out in Appendix A, be agreed.
2. That the revenue budget proposals for services within the remit of the other Service Committees, as set out in Appendix B, be noted.

Timetable

| Meeting | Date |
|--------------------------------|------------------|
| Policy and Resources Committee | 20 January 2021 |
| Policy and Resources Committee | 10 February 2021 |
| Council | 24 February 2021 |

Medium Term Financial Strategy and Budget Proposals

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on 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. | Section 151 Officer & Finance Team |
| Cross Cutting Objectives | 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 |
| Risk Management | This has been addressed in section 5 of the report. | Section 151 Officer & Finance Team |
| Financial | 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 |
| Staffing | The process of developing the budget strategy will identify the level of resources available for staffing over the medium term. | Section 151 Officer & Finance Team |
| Legal | 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. The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities. The Council is required to set a council tax by the 11 March in any year and has a statutory obligation to set a balanced budget. The budget requirements and basic amount of Council Tax must be calculated in accordance | Principal Solicitor Corporate Governance |

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|------------------------------------|---|---|
| | <p>with the requirements of sections 31A and 31B to the Local Government Finance Act 1992 (as amended by sections 73-79 of the Localism Act 2011).</p> <p>The Council is required to determine whether the basic amount of council tax is excessive as prescribed in regulations - section 52ZB of the 1992 Act as inserted under Schedule 5 to the Localism Act 2011. The Council is required to hold a referendum of all registered electors in the borough if the prescribed requirements regarding whether the increase is excessive are met.</p> <p>Approval of the budget is a matter reserved for full Council upon recommendation by Policy and Resources Committee on budget and policy matters.</p> <p>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.</p> | |
| Privacy and Data Protection | 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 |
| Equalities | 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 |
| Public Health | The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy. | Public Health Officer |
| Crime and Disorder | The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy. | Section 151 Officer & Finance Team |

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| Procurement | The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy. | Section 151 Officer & Finance Team |
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2. INTRODUCTION AND BACKGROUND

Medium Term Financial Strategy

- 2.1 At its meeting on 25 November 2020, this Committee considered a draft Medium Term Financial Strategy (MTFS) for the next five years. No material amendments were proposed to the Strategy by this Committee or the other Committees which considered it in December, so it will now go forward to Council for approval at its meeting on 24 February.
- 2.2 The MTFS sets out in financial terms how the Strategic Plan will be delivered, given the resources available. The MTFS builds on the previous year's 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 now faces.
- 2.3 The financial projections underlying the MTFS were prepared under three different scenarios – adverse, neutral and favourable. All three scenarios assumed that budget proposals for future years which have already been agreed by Council will be delivered, and that Council Tax is increased by 2% in 2021/22. Existing budget savings proposals are shown in Appendix A for this Committee and in Appendix B for the other Service Committees. They total £1.7 million for all Committees over the MTFS period.

Local Government Finance Settlement 2021/22

- 2.4 The Provisional Local Government Finance Settlement for 2021/22 was announced on 17 December 2020. This confirmed several of the key assumptions incorporated in the MTFS.
- The Council Tax referendum limit will be 2%.
 - The existing Business Rates regime will remain in place. Whilst the business rates multiplier will be frozen for ratepayers, local authorities will be compensated for the consequent loss of an inflationary increase.
 - There will be no negative Revenue Support Grant.
- 2.5 Additionally, the Finance Settlement recognised the likely continuing impact of Covid-19 in 2021/22, and included a number of measures intended to support local government:
- a further £1.55 billion unringfenced grant to manage the immediate and long-term impacts of the pandemic;
 - £670 million to help address the loss of Council income arising from more taxpayers requiring Council Tax Support;

- ongoing compensation for 75% of lost sales, fees and charges for the first three months of 2021/22.

The government expects councils to use the £1.55 billion unringfenced grant for priority pressures such as household waste collection, homelessness and rough sleeping, support for re-opening the country and the additional costs associated with local elections in May 2021. Councils have been told to plan on the basis of not receiving any additional funding for these pressures, so a careful assessment is needed of the financial impact of the pressures before concluding that any of the grant can be released to support general spending.

- 2.6 As announced in the Chancellor's Spending Review on 25 November, Public Works Loan Board (PWLB) lending terms have been altered to prevent the use of PWLB borrowing for investment property bought primarily for yield. In return lending rates have been reduced by 1%, reducing the cost of borrowing.
- 2.7 There will be a new round of New Homes Bonus (NHB) payments in 2021/22, but there will be no ongoing payments in future years (as envisaged when NHB was introduced originally). In Maidstone's case, this means that New Homes Bonus will fall from £4.4 million in 2020/21 to £3.8 million in 2021/22. Other authorities have seen much bigger reductions, so to prevent those authorities seeing an overall reduction in their Core Spending Power, the government is using a new grant, the Lower Tier Services Grant (LTSG), to cushion the impact.
- 2.8 The outcomes for the Council's budget gap of the above measures, before allowing for any further growth or savings, are set out below.

| | 21/22 | 21/22 | 22/23 | 23/24 | 24/25 |
|---|-------------|-------------|------------|------------|------------|
| | £m | £m | £m | £m | £m |
| Budget gap (-) / surplus as reported on 01/12/20 | -2.4 | 0.0 | 0.2 | 0.7 | 0.3 |
| Adjustments: | | | | | |
| Local Council Tax Support grant (note A) | 0.3 | -0.3 | | | |
| Sales Fees and Charges compensation (note A) | 0.1 | -0.1 | | | |
| Business Rates indexation | 0.2 | | | | |
| Reduction in borrowing costs (note B) | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Updated budget gap (-) / surplus | -1.6 | -0.3 | 0.3 | 0.8 | 0.4 |

Notes:

- A. See para 2.5 above. One-off grants are shown as reversing out in 21/22, to reflect the fact that they will only offset the ongoing budget gap for one year.

- B. The reduction in borrowing costs is assumed to be sustained over the five year MTFS planning period. It benefits every year, reflecting the fact that further borrowing is planned every year.
- C. The above table does not include Maidstone's share of the £1.55 bn unringfenced Covid-19 grant, amounting in our case to £860,000, on the basis that it will be required to deal with Covid-19 related pressures. The position will be monitored carefully during the course of the year to confirm whether this is in fact the case. If not, the Council may decide to release some of the grant to address general budget pressures.
- D. It is assumed that Maidstone's share of the LTSG, amounting to £139,000, is treated in the same way as New Homes Bonus, ie it is ringfenced for capital expenditure unless required to bridge the budget gap over the coming three years.
- E. Final projections for the MTFS planning period will be set out in a Strategic Revenue Projection, to accompany the budget proposals to be considered by P & R Committee on 10 February 2021.

2.9 It can be seen from the table above that the effect of the government's announcements is to reduce the budget gap and to defer some of the impact to future years. It remains the case that the Council needs to continue planning for a significant reduction in resources over the next three years.

2.10 As explained in the draft MTFS, it may take 3 – 4 years to deliver savings to cover the budget gap. It is therefore proposed that any budget gap not covered within the year that it arises will be covered by other revenue resources.

Revenue Budget Proposals

2.11 The MTFS outlined an approach to addressing the budget gap that combined a re-prioritisation of Strategic Plan objectives, together with proposals for transformational budget savings. Members considered at Policy and Resources Committee on 16th September 2020 a number of ways in which the Strategic Plan could be re-prioritised, including:

- A more modest direction of travel in developing the museum
- Reconsidering the sustainability of the Hazlitt Theatre
- Reviewing the scope of our community safety work.

At the same time, a number of lines of inquiry, to include radical initiatives to change the way the Council works, would be explored, as follows:

1. Review of office accommodation
2. Better use of technology
3. Better use of external grant funding
4. Identifying further opportunities for income generation
5. Capital investment to generate revenue savings
6. Service improvements, eg better service commissioning
7. Review of shared service arrangements
8. Review of staff reward packages
9. Review of the structure of democratic representation

10. Exploit synergies between service areas.

In pursuing these lines of inquiry, it was made clear that no service could be exempt from the requirement to consider the need for transformation. Budget savings in relation to 1, 2, 6, 7, 8 and 9 have been identified within the remit of this Committee and are described below. Additionally, two further savings have been identified under the heading 'Other savings'. All proposed revenue budget savings are also set out in Appendix A.

2.12 Review of office accommodation

The Council's lease on its office premises at Maidstone House comes to an end in October 2023. This provides an opportunity to re-appraise our office requirements. The proposed saving makes no assumption about the location of our offices after 2023, but assumes that it will be possible to reduce the amount of space occupied by one third arising from more flexible working. In the meantime, a modest saving is assumed from being able to continue letting out space not required within Maidstone House to sub-tenants.

2.13 Better use of technology

Amongst the services within Policy & Resources Committee's direct remit, it has been identified that there is scope for improvement in the use of technology in Corporate Services (post room, printing) and in the Mid-Kent Services shared Planning Support service (in the latter case, only Maidstone's share of the saving is accounted for within the budget proposals).

2.14 Service improvements

The Council carries out regular service design reviews. A review of our Corporate Property service has identified that, following the growth of the property portfolio in recent years, there is scope for improvement in management of the portfolio, by strengthening the client side of property management and getting more value from external managing agents.

2.15 Review of shared services

A review of savings opportunities in Mid Kent Services has identified the following.

Revenues and Benefits – Although there have been increased demands placed on the service with an increasing benefits caseload and growing level of unpaid Council Tax and NNDR, there is scope for a rationalisation of management roles.

ICT – This service is also faced with increased demands and a requirement to support transformation activity, but here again there is scope for rationalisation.

Audit – A new collaboration agreement is due to be implemented which will build greater flexibility with regards to the annual usage and recharge by

partners. This is likely to benefit Maidstone, which went into the shared service making a fixed contribution which no longer reflects our service requirements.

Legal – A saving is envisaged arising from some rationalisation of staffing arrangements. To the extent that in-house staffing is reduced, there may be a greater requirement to buy in legal services externally, which would lead to the service instructing the work bearing the cost.

HR – There are potential savings depending on adjustments to the size of the workforce and level of recruitment undertaken across the partnership. In addition, the service has successfully sold payroll services to a third party authority and has the potential to expand this business.

Planning support – The proposed saving represents an earlier change to the management structure and deletion of the planning support manager role. A separate transformation review is currently being undertaken with the aim of identifying efficiencies (see 'Better Use of Technology' above).

2.16 Review of staff reward packages

Given likely changes to working arrangements following Covid-19, and given the Council's commitment to achieving carbon neutrality across the borough, it is appropriate to put in place measures which promote greener staff travel. The Council currently pays Essential Car User Allowances to over 100 staff and Leased Car Allowances to a smaller number, in lieu of the leased car scheme that was terminated a number of years ago. A review of these benefits will be carried out with the objective of reducing the subsidy for travel by car, thereby promoting working arrangements that generate fewer carbon emissions.

2.17 Review of the structure of democratic representation

This area has been addressed in line with the strategy of seeking savings across the board, with no Council functions being exempt from the requirement to cut costs. The proposed saving encompasses two measures.

- Most district councils now hold whole council elections every four years. This reduces the cost of holding elections over the four year electoral cycle. Assuming a boundary review is initiated in 2021, the first whole council elections could take place in 2023, to coincide with District Council elections elsewhere in the country.
- The opportunity exists, as part of the boundary review, to consider the number of members of the council. Other authorities, in Kent and elsewhere, have reduced the number of members, and Maidstone currently has over 10% more members than the 20 councils defined by CIPFA as being our 'nearest neighbours' in terms of the borough's profile.

2.18 Other savings

Electoral services – following the retirement of a member of the electoral services team, a restructure has been carried out which takes advantage of synergies between the democratic and electoral services teams, which are now under common management.

Finance and Procurement – Savings can be achieved by deleting a vacant post and from the shared service approach to procurement which was adopted earlier in 2020/21.

- 2.19 Budget proposals have been developed, following the same principles, for services within the remit of the other Service Committees. These savings are set out in Appendix B and are being considered in the January cycle at these Committees' meetings. Taken in total, it is projected that the savings proposals will allow the budget to be balanced over the three years 2021/22 to 2023/24.

Capital Programme proposals

- 2.20 The capital budget proposals for services within the remit of this Committee are set out in a separate report on this evening's agenda.

3. AVAILABLE OPTIONS

- 3.1 Agree the budget proposals relating to this Committee as set out in Appendix A.
- 3.2 Propose changes to the budget proposals.
- 3.3 Make no comment on the budget proposals.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Policy and Resources Committee must recommend to Council at its meeting on 10 February 2021 a balanced budget and a proposed level of Council Tax for the coming year. The budget proposals included in this report will allow the Policy and Resources Committee to do this. Accordingly, the preferred option is that this Committee agrees the budget proposals at Appendix A.

5. RISK

- 5.1 The Council's MTFs is subject to a high degree of risk and uncertainty. In order to address this 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

of its meetings.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Policy and Resources Committee received an initial report on the MTFS at its meeting on 21 July 2020 and it agreed the approach set out in that report to development of an MTFS for 2021/22 - 2025/26 and a budget for 2021/22.
- 6.2 Policy and Resources Committee and the other Service Committees then considered a draft MTFS at their meetings in November and December 2020.
- 6.3 Public consultation on the budget has been carried out. Details were reported to this Committee at its meeting in November 2020.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The timetable for developing the budget for 2021/22 is set out below.

| <i>Date</i> | <i>Meeting</i> | <i>Action</i> |
|--------------------|--------------------------------|--|
| January 2021 | All Service Committees | Consider 21/22 budget proposals |
| 10 February 2021 | Policy and Resources Committee | Agree 21/22 budget proposals for recommendation to Council |
| 24 February 2021 | Council | Approve 21/22 budget |

8. REPORT APPENDICES

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

- Appendix A: Revenue Budget Proposals 2021/22 – 2025/26 – Policy and Resources Committee
 - Appendix B: Revenue Budget Proposals 2021/22 – 2025/26 – Other Service Committees
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9. BACKGROUND PAPERS

There are no background papers.