

POLICY & RESOURCES COMMITTEE

27 JANUARY 2016

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

No

MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS – UPDATE

Final Decision-Maker	Council
Lead Head of Service	Head Of Finance & Resources
Lead Officer and Report Author	Head Of Finance & Resources
Classification	Public Report
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Committee notes the impact of the provisional local government finance settlement on the Council's medium term financial strategy.
2. That the Committee agrees the additional savings and efficiencies set out in Appendix B to this report.
3. That the Committee agrees the potential efficiency plan for the period to 2020/21 as set out in Appendix D for inclusion in the medium term financial strategy.

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. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.

Timetable

Meeting	Date
Policy & Resources Committee	27 th January 2016
Policy & Resources Committee	17 th February 2016
Council	2 nd March 2016

MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS – FINAL REVIEW

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Committee will consider the final budget proposals for 2016/17 and the final medium term financial strategy at its meeting in February 2016. During January each year final consultation with service committees would occur and this process is ongoing.
 - 1.2 This year it has become necessary for the Committee to consider this additional report due to significant changes to the resources available to the Council that have come to light since the Committee met on 16 December 2015.
 - 1.3 This report informs the Committee of the impact of the provisional local government finance settlement announced by the Secretary of State for Communities and Local Government on 17 December 2015. This was the day after this Committee's December meeting.
 - 1.4 The provisional local government finance settlement results in a significant reduction in the Council's resources when compared to the assumptions made in the report considered by this Committee on 16 December 2016. The reduction creates an immediate gap in the Committee's plans for a balanced budget for 2016/17.
 - 1.5 This report sets out specific proposals from within the Committee's service areas to assist in resolving the immediate need to balance the budget for 2016/17. The report also provides the committee with the proposals from each of the three other service committees on resolving that same immediate need.
 - 1.6 The report also provides high level proposals for an approach to delivering the full level of savings now required by the Council's medium term financial strategy from 2017/18 to 2020/21.
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2. INTRODUCTION AND BACKGROUND

Maintaining the Council's Current Priorities

- 2.1 It should be noted that whilst the Council's resources have been diminished as a result of the provisional local government finance settlement the ambition and aspiration to deliver our priorities remains. The Medium Term Financial Strategy remains aligned to the priorities and underpins their delivery.

Background

- 2.2 The work to date on the medium term financial strategy for revenue was reported to Policy and Resources Committee on 16th December 2015. At that meeting the Policy and Resources Committee confirmed the proposals put forward by each service committee for growth, savings and efficiencies.
- 2.3 At the time of this Committee's December 2015 meeting the provisional local government finance settlement had not been announced. The reported details, as endorsed, produced a balanced budget for 2016/17 based upon an earlier estimate of the revenue support grant and business rates values.

The Provisional Local Government Finance Settlement 2016/17

- 2.4 The provisional local government finance settlement was received on 17th December 2015 and provided significantly less resources than the earlier estimate. The variance between the estimated figures as reported to this Committee in December 2015 and the provisional local government finance settlement are set out in **Appendix A**. The Committee should note that the revised figures place an immediate pressure of £628,000 on the budget for 2016/17. Throughout the five year period of the medium term financial strategy the total additional pressure is £2,879,000.
- 2.5 Combined with savings already identified and pressures that existed at 16 December 2015 the Council has a need to find £7,373,000 in savings and efficiencies over the five years of the strategy. At its December meeting the Committee reviewed proposals that totalled £2,679,000 and is considering proposals totalling a further £628,000 in this report.
- 2.6 Because some of the proposed savings in the £628,000 considered in Appendix B are the result of changes to delivery timelines and not new proposals, the sum still to find is £4,177,000 and not the net difference of £4,066,000.
- 2.7 This additional impact on this Council arises from two major assumptions in the methodology applied by government to the allocation of resources.
- a) The first assumption directs resources towards those authorities that have direct responsibility for adult social care and away from other authorities;
 - b) The second assumption is the method of calculating each authorities "core spending power" (the combined value of business rates, council tax, new homes bonus and revenue support grant)
- 2.8 The first assumption does not fully consider the consequential impact of many district council services such as housing, recreation and cleaning on health and therefore adult social care. The second assumption calculates future increases in the level of council tax income for this authority that it could not deliver given current trends and the limit on council tax increases.
- 2.9 The result of this is that the government considers this Council able to contribute towards the redirection of resources at a higher level than the

total amount of revenue support grant it receives. Due to this fact the Council will see the complete removal of revenue support grant after 2016/17 and an adjustment to its business rates tariff (paid to central government) from 2017/18. By 2019/20 the Council will pay £1,589,000 in additional business rates tariff to central government.

- 2.10 Only 15 authorities in the country are affected this significantly and this immediately. Three of these authorities are in Kent, this Council, Tonbridge and Malling Borough Council and Sevenoaks District Council. Together with 11 of the remaining 12 hardest hit authorities these three Kent Councils have been included in a joint submission in response to the Government's consultation on the provisional local government finance settlement for 2016/17.
- 2.11 In addition the Council has submitted its own direct response to the consultation.
- 2.12 The Council must agree a balanced budget at the budget settling meeting on 2 March 2016. Each of the three other service committees have, at their meetings this month, considered proposals to support the additional efficiencies required. The proposals for this committee to consider in relation to its service areas are set out in **Appendix B**.
- 2.13 The proposals are:
- a) A pay and inflation adjustment that amends the previous assumptions made about increases in rent, fuel and business rates along with an adjustment to the value of the employers national insurance contribution. All of these are possible because the final rates of increase are lower than predicted last year.
 - b) The maximum use of the contingency budget, which means that no contingency will exist over that afforded by the level of balances maintained by the Council.
 - c) The maximum use of the available business rates growth achieved by the Council outside of the business rates pool.
 - d) A change to the funding and timing of the pay policy review. This budget pressure remains subject to consideration by Employment Committee and any necessary amendment to the proposal will be provided by a verbal update to the Committee.
 - e) Within three areas of the Committee's services further reductions can be made that will enable early deliver of some plans. In addition a proposal to delete a long term vacancy has been made.
 - f) A reduction in the training budgets across the Council to reflect current staffing levels is proposed to deliver a £10,000 saving.
- 2.14 The proposals agreed by all four committees, including the proposals for this committee set out in Appendix B above, are set out in full in **Appendix C**. At the time of producing this report two of the three service committees had not met to consider the proposals and, if amendments to the

information set out in Appendix C are necessary, an update will be provided at the meeting.

- 2.15 The proposals have been developed and reviewed so as to provide a balanced budget for 2016/17. Given the late stage at which the Council has been presented with this need, the proposals are also those that offer least risk as there remains insufficient time to fully develop new ideas or mitigations for higher risk ideas. As a consequence some of the proposals relate to ideas already considered but now proposed for 2016/17 rather than later years.
- 2.16 The proposals therefore place a greater risk on delivery of the medium term savings and efficiencies from 2017/18 to 2020/21 and a formalised statement of actions planned to identify efficiencies over that period has been developed. Proposed areas of activity and preliminary efficiency gains are set out in **Appendix D** for consideration.
- 2.17 The Committee should note that the proposals do not create a balanced budget for each year of the medium term financial strategy and the response to the Government's consultation makes it clear that local government needs additional freedoms if it is to successfully provide essential services within the resource levels set out in the provisional local government finance settlement. These freedoms are issues such as:
- a) Removal of the referendum limit so local authorities can set council tax at a level that reflects the level of services expected by residents;
 - b) Removal of restrictions to the Local Council Tax Support schemes e.g. protection for pensioners;
 - c) Abolition of the single person discount;
 - d) Enabling full cost recovery on fees such as those for planning applications and licences which are set at statutory levels;
 - e) Changes to the requirements relating to the minimum revenue provision requirements (a revenue control over the Council's power to borrow appropriate to the risk).
- 2.18 A summary list of the 2016/17 budget for service areas that are the responsibility of this Committee, combining together all of the previously agreed plans, is set out at **Appendix E**. The budgets shown do not take account of the additional savings proposed in Appendix B.
- 2.19 Final approval of the budget is reserved for the Council's budget setting meeting on 2 March 2016. This Committee will consider the final details and agree a set of recommendations to Council at its meeting on 17 February 2016. By that time it is hoped that the government will have responded to the consultation and the Council will have received notification of its final settlement.

LONGER TERM IMPLICATIONS OF GOVERNMENT STRATEGY

- 2.20 The provisional local government finance settlement provides indicative figures for the four years from 2016/17 to 2019/20. It is from this information that the details of this report have been developed.
- 2.21 The four year settlement is an offer that the Council is required to accept if it wishes to fix the values for years after 2016/17. In order to accept this offer the Council must produce an efficiency statement that shows how the Council will achieve service provision within the resources provided by the settlement. The statement must be submitted to the Department for Communities and Local Government along with a formal acceptance of the settlement.
- 2.22 At this time the government has not provided detailed guidance on the efficiency statement or the process for accepting. In addition the government has not explained whether the four year settlement is a minimum settlement or an absolute settlement. The government has confirmed that additional details will be provided with the reply to the consultation responses.
- 2.23 It is hoped that the Committee can be updated on the position at its meeting on 17 February 2016 when it considers its final recommendations to Council on the budget for 2016/17.
- 2.24 Another longer term implication, that has unknown consequences at this time, is the review of the business rates system scheduled to take effect from 2020 with the retention of 100% of business rates by local government. It is clear that the Council should expect additional responsibilities and therefore additional cost from this proposal but it is not clear at this time that the Council would gain from additional business rates retained locally. Given the current proposals to redirect additional business rates away from this Council it is most likely that the net effect of the review will be a further net loss of resources to this Council.
- 2.25 The significance of the medium term impact cannot be understated and could lead to service diminution or loss. The status quo no longer creates a viable option for the Council's long term viability and there is a need to look to progress many initiatives that are developing nationally such as devolution, cross sector integration and a partnership approach to future service provision.

3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could choose to confirm the proposed efficiencies as set out in Appendix B for inclusion in the Committee's budget plan, set out at Appendix E. This will enable the Committee's services to be funded at a level that is compatible with continued service provision while supporting the Council corporately to agree a balanced budget for 2016/17. In addition the Committee could note the preliminary efficiency plan set out at Appendix D as the outline proposal to achieve a balanced budget for the period of the medium term financial strategy.

- 3.2 **Option 2:** The Committee could propose alternative additional savings and efficiencies for 2016/17. Subject to a suitable level of savings and efficiencies, this option could provide a balanced budget. However any decision made at this late stage may not allow adequate time to evaluate and action any alternative proposals in time for 1st April 2016. The medium term plan does not at this time provide enough resources to
- 3.3 **Option 3:** The Committee could reject the proposed savings or propose further growth. The proposal would be refer to Policy & Resources Committee on 17th February 2016. Given the financial pressure on the organisation it is unlikely that Policy & Resources Committee would be able to accept a request of this type and may need to choose savings options without the Committee's consent.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 1 is the preferred option as it provides the committee with revised and reduced resources and supports the Council's medium term financial strategy in a managed and controlled way.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The three other service committees have previously considered and endorsed the revenue budget for their service areas and have considered and agreed the additional savings set out in Appendix C where these relate to their services.
- 5.2 Members should note that Appendix C is provided for endorsement only as the relevant service committee has considered and agreed the proposals included in the report.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The decision made at this time will be incorporated into the medium term financial strategy and the budget for 2016/17. The committee will consider its final proposals to Council at its meeting on 17 February 2016 and any update to the provisional local government finance settlement following the consultation period.

7. 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	Head of Finance &

	of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Resources
Risk Management	<p>Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk.</p> <p>The significance of the effect of the provisional finance settlement on the medium term financial strategy requires additional savings and efficiencies when the medium term financial strategy is in the final stage of development. Late developments such as these increase the risk of non-delivery. It will be necessary for the budget and specifically these proposals to be carefully monitored in 2016/17.</p>	Head of Finance & Resources
Financial	<p>The MTFS impacts upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.</p> <p>It is important that the committee is aware of the additional budget pressure placed upon the medium term financial strategy by the provisional finance settlement. The settlement is for the four years 2019/20</p>	Head of Finance & Resources
Staffing	The report proposes funding to ensure that the Committee has resources to fund appropriate salaries.	Head of Finance & Resources
Legal	The Council has a statutory obligation to set a balanced budget and development of the savings proposals assists this obligation.	Head of Finance & Resources

Equality Impact Needs Assessment	<p>The objective of the MTFS is to match available resources to the priorities set out in the Strategic Plan. Delivery of those priorities should enable delivery in line with the impact assessment of the strategic plan.</p> <p>When the service committees and this committee have considered all of the proposals a new comprehensive EIQA will be produced that takes into account any additional service changes proposed. This will form part of the Committee's considerations in February 2016.</p>	Head of Finance & Resources
Environmental/Sustainable Development	None identified	Head of Finance & Resources
Community Safety	None identified	Head of Finance & Resources
Human Rights Act	None identified	Head of Finance & Resources
Procurement	None identified	Head of Finance & Resources
Asset Management	Resources for management and maintenance of the Committee's assets are included within the proposed budget.	Head of Finance & Resources

8. REPORT APPENDICES

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

- Appendix A: Comparison of the resources available from the estimated finance settlement and the provisional finance settlement.
 - Appendix B: Additional Budget Savings and Efficiencies 2016/17 – Policy & Resources Committee.
 - Appendix C: Additional Budget Savings and Efficiencies 2016/17 – All Committees.
 - Appendix D: MTFS Preliminary Efficiency Plan 2016/17 to 2020/21
 - Appendix E: Summary Budget 2016/17
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9. BACKGROUND PAPERS

None