

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

12 October 2021

Report of the Director of Finance and Transformation

Part 1- Public

Executive Non Key Decisions

1 MEDIUM TERM FINANCIAL STRATEGY UPDATE

A report updating on the Medium Term Financial Strategy having regard to the latest financial issues. Cabinet is requested to note the update, and consider and implement a programme for investigating and identifying the necessary savings.

1.1 Introduction

- 1.1.1 I reported with the Chief Executive and Director for Central Services & Monitoring Officer on 6 July with an update to the Medium Term Financial Strategy (MTFS), as well as the Savings and Transformation Strategy.
- 1.1.2 The report on 6 July set in some detail the 'updated' financial challenges facing the Council which were exacerbated by the significant issues with the Waste contract, the latest position with the Local Plan, and costs associated with responses to climate change.
- 1.1.3 Since July there has been changes within the Cabinet itself, and to avoid repeating the content of that report again, I attach it in full (excluding its annexes) at **[Annex 1]**. Cabinet is encouraged to read this thoroughly to gain a full understanding of the position as it stood in July 2021.
- 1.1.4 **[Annex 1]** also gives (new) Cabinet insight into the responsibilities of Members and senior officers with regard to the CIPFA Financial Management Code, in addition to the 'flavour' of the Northamptonshire Interventions report. In respect of the latter item, a detailed report is to be presented to the Overview & Scrutiny Committee on 7 October 2021, so Members of Cabinet may wish to read this for background information before the Cabinet meeting on 12 October.
- 1.1.5 As Members are well aware, financial scenarios and risks are constantly changing and it is important to ensure that the Council is responding proactively to emerging challenges in a time-critical way and having regard to risk. This enables us to protect the Council's finances and ensure that services can be delivered to the public for as long as possible without the

need for sudden 'knee-jerk' and unannounced changes as a result of mounting financial pressure.

- 1.1.6 The purpose of this report is to refresh the MTFS once more so that Members can prepare for the forthcoming budget cycle and begin to put in place urgent measures to address the growing funding gap.

1.2 Update

- 1.2.1 As Members will know from previous reports, the MTFS has been increasingly difficult to update with any degree of "predictability" in recent years due to government delays in bringing forward the Fair Funding and New Homes Bonus reviews.

- 1.2.2 The Fair Funding Review is of course still awaited and the outcome of the New Homes Bonus consultation (which the Council responded to) is also outstanding. Therefore, government funding beyond the current financial year is, as yet, uncertain and could well change our MTFS once more when it is known.

- 1.2.3 The Chancellor Rishi Sunak is due to present the Spending Review to the House of Commons on 27 October 2021, and at that point the general direction of things may begin to become clearer; although any provisional settlement is unlikely until mid to late December. Whether the sector will receive a single or multi-year settlement is also unclear at this point. As Members are aware, single year settlements make planning extremely difficult.

- 1.2.4 In the report to the 6 July 2021 meeting of the (then) Cabinet, the level of savings to be achieved ('the funding gap') was made up of :

	<u>Identified Savings</u>
Decisions/Initiatives agreed but only partially delivered	£500,000
	<u>Savings to be Identified</u>
"New" Savings to be identified and delivered	£475,000
Additional target as highlighted in the July report	£1,300,000

- 1.2.5 In respect of the table above, and as detailed in the 6 July report, the £500,000 badged as 'decisions/initiatives agreed but only partially delivered' was made up of the following items:

<u>Decision/Initiative</u>	<u>£000</u>
Sale of River Walk Offices and generation of investment income	62
Sale of River Lawn land and generation of investment income	73
New income from charging in Aylesford/Martin Square Car Parks	70
New income from charging in Snodland Car Park	25
Transfer of Public Conveniences to Parish councils, or closure	70
Scaling back of Council's Office Accommodation at Kings Hill	<u>200</u>
TOTAL	<u>500</u>

- 1.2.6 ***It is important to note that the “credit” of £500,000 for these above-listed initiatives had already been ‘banked’ as far as our MTFS is concerned.***
- 1.2.7 At the meeting of the Finance, Innovation and Property (FIP) Advisory Board on 15 September 2021, Members received a report in respect of the River Lawn land and recommended that the intended sale of the land should be revoked. This matter is referred to Cabinet elsewhere on this agenda as a ‘Key Decision’ for further discussion.
- 1.2.8 Should Members decide to discontinue the proposed sale of the open space land at River Lawn as is recommended by the FIP Advisory Board, the generation of investment income from sale proceeds will be foregone. At the time of writing this report the final decision has of course not been made, but for the purposes of prudence this item has been removed from the list above and the foregone contribution of £73,000 will therefore need to be added onto the “unidentified savings list”, increasing the target to be met through our Savings and Transformation Strategy (STS).
- 1.2.9 ***As outlined in the previous report, the non-delivery of these remaining initiatives/decisions in the relatively short-term will have a detrimental impact on the STS and MTFS, and it is imperative that if for any reason these will not be delivered in the near future, something else must take its place in order to preserve the integrity of our financial plans.***
- 1.2.10 An updated version of the MTFS is appended at **[Annex 2]** for Members’ information and review. This takes into account the change in respect of the River Lawn land as outlined above, plus a number of other financial changes which have emerged since July. The more significant of these are set out in paragraphs 1.2.11 to 1.2.16 below.

- 1.2.11 On 8 September 2021, the government agreed to introduce a health and social care levy through additional national insurance contributions. For employers, this means an additional 1.25% to pay – equating to circa £100,000 per annum for TMBC which will need to be built into base budget from April 2022 onwards.
- 1.2.12 The costs associated with Temporary Accommodation continue to escalate. As mentioned in my report to FIP on 15 September, should caseload remain at current levels the estimated net increased cost in respect of TA in 2021/22, compared to the already increased budget set for the year, will be around £300,000. This is on top of the £600,000 increase which has occurred since the pandemic hit.
- 1.2.13 In earlier modelling, we had suggested that we expected caseload and costs to fall back to pre-pandemic levels over a 4-year period. This original modelling now appears unrealistic given the situation we currently face, and we have now re-modelled to assume costs will be reined back to pre-pandemic levels within 6 years. As an aside Members may wish to be aware that since the escalating costs of Temporary Accommodation are one of the biggest financial challenges the Council is facing, Management Team in consultation with the Leader has agreed to commission some consultancy support to help us identify how and if processes can be refined to minimise cost. This will be funded from the Housing and Welfare Reform reserve and/or the Invest to Save reserve as appropriate.
- 1.2.14 In a similar vein, the report to Cabinet in July set out the assumption that income from car parking would return in large part to pre-pandemic levels over a 2-year period. Whilst it is still early days, the signs are not presently that promising and with the benefit of recent experience it is now looking as though commuter parking and ‘town centre’ office parking is likely to be hit long-term. With this in mind, I have reflected in the MTFs a lower expectation in terms of income recovery from car parking charges by a further £100,000.
- 1.2.15 Members are very aware of the pressures in the transport and waste industry, and at the time of writing the garden waste service is suspended. As this is a directly ‘paid for’ service, annual subscriptions are being extended so that recipients of the service are not ‘out of pocket’. Members are advised that the monthly value of those subscriptions is circa £85,000. Thus far, in accounting terms we have been accounting for the income on a “cash” basis however in line with Tunbridge Wells we are considering moving to an accruals basis. To avoid a change in the accounting treatment impacting on the overall budget position the requisite sum, to manage that accounting change, would be released from the Budget Stabilisation Reserve (BSR). Members should note that this does not mean that the full loss of income from the suspension of the garden waste service will be funded from the BRS. The loss of income will be reflected in the Revised

Estimates position and will, all other things being equal, mean that the General Revenue Reserve (GRR) balance will be impacted at year end. Dependent upon the length of the full suspension (which has already passed the two months mark at the time of writing), this could be anywhere from the unlikely 'best case' of £250,000 up to a potential £500,000 (or more).

- 1.2.16 In respect of the re-submission of the Local Plan, a more detailed picture of estimated costs is being drawn up. The funding arrangements for this have yet to be determined, but like garden waste, could impact on the GRR if another solution cannot be found.
- 1.2.17 Members will note from **[Annex 2]** that the funding gap, *representing savings that have yet to be identified and delivered*, has increased to £2,150,000. As ever, this can be split into tranches, but in order to protect the integrity of the MTFs, all savings will need to be delivered by April 2026. The proposed five tranches are:
- Tranche 1 - £100,000 to be achieved by April 2022.
 - Tranche 2 - £350,000 to be achieved by April 2023.
 - Tranche 3 - £400,000 to be achieved by April 2024
 - Tranche 4 - £650,000 to be delivered by April 2025
 - Tranche 5 - £650,000 to be delivered by April 2026.
- 1.2.18 As Cabinet is aware, in order to help to deliver the required savings, the Council developed a Savings and Transformation Strategy (STS). This Strategy sets out a measured structure and framework for delivering the necessary savings and transformation contributions through a series of 'themes'. Each theme has a deliverable target within a timeframe. What the STS does not do is itemise exactly how each of the 'themes' will be made up.
- 1.2.19 It should not be forgotten that the initiatives identified and "banked" in paragraph 1.2.5 (excluding River Lawn for which a substitute(s) of at least equivalent value need to be identified) also need to be delivered in the next few years to maintain the integrity of our financial plans.

1.3 Savings

- 1.3.1 In the last report my colleagues and I set out the critical importance of obtaining input from Members in steering Management Team in the right direction as to how elected members want to prioritise the services provided by the Council. As my colleagues and I outlined, put bluntly it is NOT going to be possible to carry on delivering all the services we currently deliver in the present format with the financial outlook we have painted. **The sooner**

decisions are made about the prioritisation, the sooner we can address these severe financial challenges. Doing nothing at this point is not an option.

- 1.3.2 Management Team have identified a few savings that can be put forward for consideration to contribute towards the first tranche of savings (£100,000). These relate to “ringfenced sums” for staffing contingencies which Management Team now believe can be released, in addition to a couple of other savings that are presently being progressed through the democratic cycle. In total, these are as follows:

	£
Ringfenced sum for staffing costs previously agreed by General Purposes Committee in relation to Arts & Tourism - <i>see note #</i>	7,800
Ringfenced sum for staffing costs previously agreed by General Purposes Committee in relation to Elections team – <i>see note #</i>	5,350
Deletion of a p/t vacant post in Print Section – <i>see note #</i>	11,150
Reduced resource for Cemetery Administration due to internal restructuring as noted in report to FIPAB September 2021	6,150
Leybourne Lakes Country Park – proposals from Communities and Housing Advisory Board (July 2021)	13,050
Removal of cash kiosks – Finance, Innovation & Property Advisory Board (July 2021) (net saving)	8,500
Total	52,000
<i>Note # -recommendations for deletion of these ringfenced sums and post will go to General Purposes Committee in January 2022.</i>	

- 1.3.3 This does not achieve the full requirement of £100,000 of savings but does make a start towards it. Further work is needed to identify the balance and report back by the end of December in accordance with Members’ instructions.
- 1.3.4 **In terms of tranches 2 to 5, urgent and concerted effort will need to be made by both Members and officers in identifying how these significant sums can be found.** This undoubtedly will be a combination of “big ticket items”, service rationalisation, cessation of services with least priority, and the continued search for efficiencies.

1.4 Legal Implications

- 1.4.1 Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

Section 114 of the Local Government Finance Act 1988 requires a council's chief finance officer to issue a s114 Notice reporting to all elected members an actual or impending seriously unbalanced budget.

1.5 Financial and Value for Money Considerations

- 1.5.1 At the time of writing and updating the MTFS in September 2021, we have not received any further information regarding Fair Funding, Business Rates Reform or New Homes Bonus.
- 1.5.2 The Council maintains a prudent level of reserves to provide a safety net for unforeseen or other circumstances. The Robustness of Estimates and Adequacy of Reserves statement that the Council's Chief Financial Officer (i.e., myself as Director of Finance & Transformation) is required to produce under the local Government Finance Act 2003 to support Members in considering the Budget Setting report, lists examples of why the Council needs to retain a minimum level of reserves. Examples include Emergencies; Economic and world recession; Interest Rate volatility; Income volatility; Closure of major trading area, e.g. leisure centre for uninsured works; and Government Legislation. Rather than one or even two of these examples occurring, we have the situation of all of these examples impacting at the same time.
- 1.5.3 The Council has resolved to hold a minimum level of general revenue reserve of £3 million in order to provide for a host of potential financial and operational risks. At the start of 2021/22, the general revenue reserve balance was circa £7.0m and together with the budget stabilisation reserve giving some headroom to deal with issues arising without more immediate 'draconian' measures.
- 1.5.4 Significant savings are required by April 2026 in order to preserve the integrity of our financial plans. These are **extremely** challenging times, and it has never been more important than to now focus firmly on the delivery of the necessary savings.

1.6 Risk Assessment

- 1.6.1 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool, the Strategy needs to be

reviewed and updated at least annually and in the current climate regularly reviewed by Management Team. In addition, not identifying and implementing the requisite savings and transformation contributions will put at risk the integrity of the MTFs.

- 1.6.2 The pandemic has had, and continues to have, a significant adverse impact on the Council's finances and, in turn, on the scale and timing of the savings and transformation contributions required to 'balance the books'. The scale of the financial challenge places financial sustainability at increased risk.
- 1.6.3 Members' attention is drawn to the requirements of the Financial Management Code, and to the recommendations to the sector from the Northamptonshire County Council intervention.
- 1.6.4 Through prudent husbandry of resources, Council has reserves, including a Budget Stabilisation reserve, to help to smooth the path in the delivery of savings. However, reserves are finite and it is imperative that actions are taken at the earliest opportunity in order to preserve the longer term financial sustainability of the Council.
- 1.6.5 Much debate has been made of the potential and (perhaps necessity in some cases) for local authorities to issue s114 notices (under the s114 (3) of the Local Government Finance Act 1988). For Members' information this says that the Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him/her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure. As Cabinet will have gathered, due to careful and prudent husbandry of resources in the past, I do not believe that TMBC is yet in this position. **However, it is imperative that we carefully monitor and contain expenditure and continuously update our forecasts to ensure that we remain on track.** This will of course include reflecting in our forecasting the outcome of the Fair Funding Review and Business Rates Reforms which is as yet an unknown quantity.

1.7 Equality Impact Assessment

- 1.7.1 Where there is a perceived impact on end users an equality impact assessment has been carried out and as further savings and transformation options emerge, further equality impact assessments will need to be carried out as appropriate.

1.8 Policy Considerations

- 1.8.1 Budgetary and policy framework is relevant to all areas of the Council's business.

1.9 Recommendations

1.9.1 Cabinet is **RECOMMENDED** to:

- 1) Note the latest forecast of the Medium Term Financial Strategy and the funding gap of £2,150,000 (paragraph 1.2.16).
- 2) Note the need to deliver the savings/transformation contributions already included in the MTFS (paragraph 1.2.5) as soon as possible.
- 3) Agree the savings/transformation contributions for Tranche 1 totalling £52,000 as set out in paragraph 1.3.2 and consider how the balance of £48,000 savings can be found.
- 4) Consider and implement a programme for investigating and identifying the necessary savings for tranches 2 to 5 (£2,050,000)

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton
Director of Finance & Transformation