

TONBRIDGE & MALLING BOROUGH COUNCIL**CABINET****06 July 2021****Joint Report of the Chief Executive, Director of Finance and Transformation and
Director of Central Services and Monitoring Officer****Part 1- Public****Executive Non Key Decisions****1 SAVINGS & TRANSFORMATION STRATEGY AND MEDIUM TERM
FINANCIAL STRATEGY UPDATE**

A report updating on both the Savings and Transformation Strategy and the Medium Term Financial Strategy having regard to the latest financial issues. Amongst a number of recommendations, Cabinet is asked to note the current position and proactively engage in a prioritisation exercise in order to facilitate savings options to be worked up by Management Team.

1.1 Introduction

- 1.1.1 Cabinet is familiar with both the Medium Term Financial Strategy (which sets the scene for the Council's anticipated longer term financial position) and the Savings & Transformation Strategy (which sets out how the Council might begin to address the financial challenges which it faces).
- 1.1.2 Both strategies, working alongside each other, have served the Council well over a number of years and are updated regularly, with the latest versions of the strategies having been approved during the last budget cycle in February 2021. As a reminder, the latest versions of the strategies are appended at **[Annexes 1 and 2]** for information.
- 1.1.3 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.
- 1.1.4 This report serves two purposes. Firstly, to reflect on the current Savings and Transformation targets and to seek Members' update on how they envisage these targets being met. Secondly, to update the Medium Term Financial Strategy with significant new financial information.

Before moving onto these two important matters, it is worth reflecting on the requirements of the CIPFA Financial Management Code for local authorities.

1.2 CIPFA Financial Management Code

- 1.2.1 As previously reported to Cabinet, in October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:
- financially manage the short, medium and long-term finances
 - manage financial resilience to meet unforeseen demands on services
 - financially manage unexpected shocks in their financial circumstances.
- 1.2.2 The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. At **[Annex 3]** is a summary of the principles for Members' information.
- 1.2.3 A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that **compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration**. Beyond that, CIPFA members, such as the Director of Finance and Transformation and her two deputy s151 officers, must comply with it as one of their professional obligations.
- 1.2.4 The Director of Finance & Transformation and her staff will be preparing a checklist against the standards set out in the code demonstrating how we believe the Council conforms. This is essential as part of our external audit validation.
- 1.2.5 As mentioned in the budget report to Cabinet on 11 February 2021, it is our view that good financial management is already embedded at Tonbridge and Malling. **However**, it is essential that the Council does not become complacent. 'Seeing through' commitments to financial savings that have been identified is critical; as is being on the front foot to consider risks and identify and manage options for later savings tranches even if they are a few years away. As the Code says: *"While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance"*.

1.2.6 It is also worth reflecting on the issues that occurred at Northamptonshire County Council which received an intervention in May 2018 following the identification of critical failures highlighted in a Best Value Inspection. At that point the Council had exhausted its reserves and the Chief Finance Officer (or s151 officer) at the council had issued a 'section 114 notice' under 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.

1.2.7 Numerous recommendations have been made as a result of the intervention by inspectors at Northamptonshire which are worth reading for awareness in avoiding the pitfalls. The full report is available on gov.uk, but a summary of the recommendations for the sector is attached at **[Annex 4]**. As this is a financial report, it is worth noting one specific recommendation which says:

*“Take action, without delay, **to address shortfalls in savings targets** and do not work under a misguided assumption that ‘it will all be all right in the end’.*

*Northamptonshire County Council, during the 7 years prior to the intervention, achieved annual savings significantly below those identified as necessary during its budget setting process (never more than 49%). This suggests that budgeted savings were not systematically or robustly challenged during the budget setting process and no account was taken of historical delivery performance. Local authorities should have robust processes in place to challenge the veracity of savings proposals – **a lot depends on them being delivered**”*

1.2.8 We are not, of course, suggesting that TMBC is, or has been, in this severe position. The Council has delivered careful and prudent husbandry of resources in the past which has put the authority in a far better position than many, but at paragraph 1.2.5 we have urged that we do not become complacent or take our 'eyes off the ball'. There are many challenges ahead which are explored in the remainder of this report and **it is imperative that the Council acts swiftly** to address these challenges.

1.3 Savings and Transformation Strategy (STS)

1.3.1 The STS adopted by the Council 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. This is a matter for Members to deliberate – either by considering options brought forward by officers, identifying options of their own or a combination of both.

1.3.2 The current iteration which Members approved and will note at **[Annex 2]** shows that the “new” set of savings to be identified and then delivered within a 4-year timescale is £475,000 (see final column of the table). As mentioned above, whilst

the £475,000 has been allocated across the themes, the crucial 'fine detail' still has to be worked up.

- 1.3.3 At the Budget meeting in February 2021, Members agreed that a phased approach to achieving the £475,000 could be taken as follows:
- 1) Tranche 1 - £100,000 to be achieved by April 2022.
 - 2) Tranche 2 - £100,000 to be achieved by April 2023.
 - 3) Tranche 3 - £275,000 to be achieved by April 2024
- 1.3.4 At the time of writing, there are no confirmed/guaranteed savings that can be "chalked up" against Tranche 1. As reported to the Communities & Housing Advisory Board on 10 November 2020, it is anticipated that there will be a small immediate saving (circa £10,000) from the potential transfer of Leybourne Lakes Country Park to TMLT: and the subsequent opening of the new café building could increase this in due course. A further report is due to be presented to the Advisory Board in July to update these figures and to make final decisions about any potential transfer and savings implications.
- 1.3.5 Members are aware that we are moving forward with the delivery of the digital agenda which has a delivery timescale of 2019 to 2023. It is our firm expectation that this agenda will bring with it some efficiency savings in due course, but it is too early to "chalk up" any savings against Tranche 1. One part of this agenda is, for example, the corporate "contact centre" which has been operating on a pilot basis since March 2020 for some Council services. If the concept is endorsed in due course by Members (anticipated to be reported to Finance Innovation and Property Advisory Board in September 2021) and expanded to other areas, there is the potential to generate some efficiency savings which could contribute to either Tranche 1 or Tranche 2 – although at the time of writing the magnitude (if any) is unknown.
- 1.3.6 It had been the expectation that earlier recommendations regarding CCTV provision in the borough (moving from a live monitoring basis to passive monitoring) would have generated savings towards Tranche 3. However, as reported to Cabinet on 2 June, due to some tragic and perhaps unprecedented events, it was agreed that the current live monitoring arrangements should remain unchanged. Therefore, the opportunity to generate the savings towards Tranche 3 has gone.
- 1.3.7 Having an eye to the Financial Management Code, the limited list of options to address the £475,000 target is of concern.
- 1.3.8 On top of the £475,000 of "new" savings, Cabinet is also aware of the initiatives that have already been "banked" as far as the STS is concerned (and therefore built into the MTFs), totalling £500,000. **Not all of these initiatives/decisions have yet delivered**, however, and there are varying timescales for their future

delivery (albeit all were expected to be delivered before 2023). For the avoidance of any doubt, the breakdown of the £500,000 is as follows:

<u>Decision/Initiative</u>	£000
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 council, or closure	70
Scaling back of Council's Office Accommodation at Kings Hill	<u>200</u>
TOTAL	<u>500</u>

- 1.3.9 Cabinet will be aware that in terms of River Walk offices, it is anticipated that the sale should proceed in the near future providing the opportunity to invest sale proceeds and generate investment income (or an alternative opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return). In addition, the transfer of public conveniences has taken place to 3 parish councils, and closure of others is underway. The Overview and Scrutiny Committee also received a report on the arrangements for bringing staff back to the office post-pandemic and the plans to "mothball" part of Gibson West in order to prepare for its disposal/renting out etc to interested parties. That said, this is a big project and will take time to work through the various stages and bring it to fruition.
- 1.3.10 For a number of reasons, the other initiatives listed above (and not mentioned in para 1.3.9) have yet to progress towards delivery stage. **The non-delivery of these 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.**
- 1.3.11 In total, presently we are working towards delivering **£975,000** of savings (made up of the "new" £475,000 plus the "already banked" £500,000) by 2024. This is based on the information presented to, and discussed by, Members in February 2021. At the time of writing this report, it is fair to say that less than £150,000 of this is imminent (public conveniences and sale of River Walk). Others are certainly work in progress, but there is a way to go.

- 1.3.12 Management Team will begin to undertake an exercise over the Summer to once again review existing budgets to identify whether there are items, through efficiency or other means, that can contribute towards the first two Tranches of the targets set out in paragraph 1.3.3.
- 1.3.13 However, in the meantime, input from Members is **CRITICAL** in steering Management Team in the right direction as to how elected members want to prioritise the services provided by the Council.
- 1.3.14 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.**
- 1.3.15 As stated in the Financial Management Code: *“responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors..... Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required”.*
- 1.3.16 In short, Management Team and Members need to work together to ensure we have a clear and detailed roadmap to deliver the necessary savings and preserve our financial sustainability; and the time for doing this is now.

1.4 Medium Term Financial Strategy (MTFS)

- 1.4.1 As mentioned in the introduction, the MTFS and STS work together to provide a set of financial plans for sustainability of the Council.
- 1.4.2 The MTFS [**Annex 1**] which sets out plans over a 10-year horizon, was last updated in February 2021 during the budget cycle.
- 1.4.3 Cabinet is reminded that the high level objectives are:
- To achieve a **balanced revenue budget** that delivers the Council’s priorities by the end of the strategy period.
 - To retain a **minimum of £3.0m** in the General Revenue Reserve by the end of the strategy period and **not to fall below £2.0m** at any time during the 10-year period.
 - Seek to set future increases in council tax having regard to the **guidelines** issued by the Secretary of State.
 - Continue to **identify efficiency savings** and **opportunities for new or additional income sources** and to **seek appropriate reductions in service costs** in delivery of the Savings and Transformation Strategy (STS) approved by Members.

- Subject to there being sufficient resources within the capital reserve, set a **maximum ‘annual capital allowance’** each year as part of the budget setting process for all new capital schemes (currently set at £250,000 from the Council’s own resources) and give priority to those schemes that generate income or reduce costs.
- 1.4.4 The MTFFS 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. The Fair Funding Review is still awaited, and the outcome of the New Homes Bonus consultation (which the Council responded to) is outstanding. Therefore, government funding beyond the current financial year is, as yet, uncertain and could well change our MTFFS once more when it is known. When preparing the MTFFS we have regard to the potential levels of risk and take a measured view in reflecting these risks.
- 1.4.5 On top of this of course, the pandemic has brought greater uncertainty as to the performance/usage of some of our Services. During the update of the MTFFS in February 2021, assumptions were made about timescales for services returning to “normal” pre-covid levels. In particular, we highlighted that:
- We anticipate that sources of income such as car parking will in large part return to pre Covid-19 levels over the next two years – the question is will income return to the levels and in the timescale assumed?
 - We anticipate the marked increase in homelessness caseload and the associated increased net cost will be pulled back to pre-Covid-19 levels over the next four years – the question is will costs be pulled back to the extent and in the timescale assumed?
- 1.4.6 As was pointed out during the February Budget meeting, what is certain is that we need to be prepared to take corrective action in response to a range of issues in an agile manner as and when required, and update plans if risk scenarios change.
- 1.4.7 Members are acutely aware of the latest position in respect of the Local Plan and the Inspector’s letter. A report to the Planning & Transportation Advisory Board on 29 June 2021 sets out the range of additional costs (up to £750k) that might be incurred dependent upon the route adopted by Members.
- 1.4.8 In terms of climate change, as noted in the Chief Executive’s report to the Street Scene and Environment Services Advisory Board on 8 June 2021, none of the proposed carbon reduction options put forward by Laser have yet been factored into the Council’s Medium Term Financial Strategy. There are also other growth pressures building in the background which may or may not materialise.
- 1.4.9 Since updating the MTFFS in February 2021, what has become clear is that the waste service is now a confirmed significant risk in terms of future financial sustainability. Members were advised via the Strategic Risk Register reported to the Audit Committee in April that there are issues regarding the longer-term

financial sustainability of the contract which has approximately 6 more years to run (from an initial 8-year contract period with an option to extend for a further 8 year period). As the performance and other issues have progressed, it has become clearer that the Council will now, in all likelihood, have to retender in preparation for the end of the initial 8-year term; and because the contract sum was lower than other tenders, the likelihood is the costs will rise affecting budgets in the latter years of the MTFs. Members will note that in the February budget report this was noted as a risk but was not felt at that point to be 'likely'.

However, Management Team believe that the tipping point of risk has now been reached and it is therefore necessary to reflect this.

- 1.4.10 The MTFs has, accordingly, been broadly updated to allow for the risks above (with exception of the Fair Funding Review and NHB which will have to be revisited in due course as highlighted at paragraph 1.4.4). This has severe financial implications as will be noted at **[Annex 5]** when compared to the current MTFs version at **[Annex 1]**. **It is imperative that, as the statutory officers for the Council, we bring this to Members' attention now that the risks have escalated to this point.**
- 1.4.11 **In short, the potential impact of these risks is to add another estimated £1.3m to the savings targets we already have.** Attempting to address this as early as possible will provide the best opportunity for the Council to protect its longer-term financial sustainability.
- 1.4.12 Members will understandably feel that this is a significant, if not almost impossible, mountain to climb when coupled with the £975,000 already set out in existing and adopted plans. Whilst the "cash impact" of this latest issue might be a few years away, good practice says that this is something that collectively Members and Management Team need to begin to address soonest.
- 1.4.13 **The prioritisation of services by Members as mentioned at paragraph 1.3.14 becomes even more important and time critical.**
- 1.4.14 In order to assist Cabinet in undertaking this important and urgent strand of work, it may be helpful to arrange a facilitated discussion led by a trained representative from the LGA or other similar body. Any thinking from this facilitated discussion can then be fed back to Management Team to assist with the identification and collation of costed options for Members' future deliberation. If this way forward is felt to be appropriate, it will need to be arranged at the earliest opportunity.
- 1.4.15 Cabinet is **asked to consider whether a facilitated discussion on prioritisation** will be helpful in delivering Members' responsibilities; and to commit to a timetable for this work. Ideally, we need to be working towards having broadly costed options for the first 2/3 tranches, plus potential areas identified for subsequent tranches that require to be worked up in more detail, available for consideration at the next Budget cycle.

- 1.4.16 At paragraph 1.2.7, we also highlighted some recommendations from the Northamptonshire County Council Interventions report. Members may note from item 10 of **[Annex 4]** that the report recommends that the involvement of the scrutiny committee in financial overview should be increased: *“If financial circumstances deteriorate, the influence of the scrutiny committee should be boosted in respect of financial overview. For example, provide impartial and independent training and advice to Councillors through the Centre for Governance and Scrutiny, to enable the committee to scrutinise effectively key decisions on services, income and expenditure and learn how to question without aggression”*.
- 1.4.17 It is our intention to present a report directly to the Overview and Scrutiny (O&S) Committee at its next meeting on 7 October regarding the Northamptonshire County Council Interventions report. At that point the role and responsibilities of the O&S Committee can be explored in terms of its contribution to this challenge.

1.5 Legal Implications

- 1.5.1 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.
- 1.5.2 Section 114 of the Local Government Finance Act 1988 requires a councils’ chief finance officer to issue a s114 Notice reporting to all elected members an actual or impending seriously unbalanced budget.

1.6 Financial and Value for Money Considerations

- 1.6.1 The scale of the financial challenge places financial sustainability at increased risk. The level of savings to be achieved is now made up of:

Decisions/Initiatives agreed but only partially delivered #	£500,000
“New” Savings to be identified and delivered	£475,000
Potential additional target – para 1.4.11	£1,300,000

Note: # see paragraph 1.3.9 for those underway.

- 1.6.2 Prioritisation of services by elected Members will be **CRITICAL** in order to scale back expenditure to meet income levels.

1.7 Risk Assessment

- 1.7.1 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.

- 1.7.2 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.
- 1.7.3 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.
- 1.7.4 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.

1.8 Equality Impact Assessment

- 1.8.1 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.

1.9 Policy Considerations

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

1.10 Recommendations

- 1.10.1 Cabinet is **RECOMMENDED** to:

- 1) Note the escalating scale of the financial challenge summarised in paragraph 1.6.1;
- 2) Note the requirements of the CIPFA Financial Management Code for both officers and elected Members;
- 3) Note the recommendations for the sector from the Northamptonshire County Council Interventions report;
- 4) Update the STS for any known 'delivery' issues in respect of those savings and transformation contributions already identified;
- 5) Note that Management Team will commence an exercise during the summer to identify any possible contribution towards the immediate Tranche 1 and 2 savings targets;

- 6) Agree that a prioritisation of services exercise prepared by elected Members is critical in steering Management Team in the right direction in the identification of more radical solutions, and consider whether a facilitated discussion as suggested in paragraph 1.4.14 would assist in this process; and
- 7) Note the intention to report to the Overview & Scrutiny Committee in October 2021 with the recommendations arising from the Northamptonshire County Council Interventions report, and to explore the roles and responsibilities of the O&S Committee in respect of financial challenge and overview.

Background papers:

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Nil

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