

# TONBRIDGE & MALLING BOROUGH COUNCIL

## FINANCE, REGENERATION AND PROPERTY SCRUTINY SELECT COMMITTEE

15 November 2022

### Joint Report of the Director of Finance & Transformation and the Cabinet Member for Finance, Innovation & Property

#### Part 1- Public

#### Matters for Information

### 1 MEDIUM TERM FINANCIAL STRATEGY

**A report updating Members of the Select Committee on the latest update to the Medium Term Financial Strategy.**

#### 1.1 Introduction

1.1.1 The Work Programme endorsed by this Scrutiny Select Committee included a request by Councillors Base and Heslop for a report on the Medium Term Financial Strategy (MTFS) and the associated Savings and Transformation Strategy (STS).

1.1.2 The work programme listed the following points to be covered:

- Consider shortfall; and
- Reflect on how savings targets will be met.

#### 1.2 Background to MTFS and STS

1.2.1 A version of the MTFS is approved and adopted each year in February by Full Council at the time Budget and level of Council Tax is set.

1.2.2 The MTFS covers a ten year period, comprising a number of objectives which have been set by the Council. There are two important objectives here which need to be met at the end of the ten year strategy period to ensure the Council has financial sustainability – one of those is to ensure there is a balanced budget, and the other is to retain a balance of £3.0m in the General Revenue Reserve.

1.2.3 For many years, the MTFS has demonstrated that there is a “gap” between the amount of money the Council is spending on service delivery, and the amount of income that is available to the Council. This gap we term the “funding gap”, and in order to have a sustainable financial position the Council must ensure that the “funding gap” is bridged by setting Savings Targets.

- 1.2.4 As Members are aware the MTFS is not ‘static’ and is updated throughout the year in response to a variety of influences – both external and internal. 2022 has been a year of significant economic turmoil for numerous reasons and therefore there has, inevitably, been a shift in the latest working versions of the MTFS.
- 1.2.5 The STS sits alongside the MTFS as a tool to address the “funding gap” and associated savings targets that have been identified. The STS itself has a number of objectives that were adopted by the Council – most notably to direct resources in line with the principles of the Corporate Strategy and to adopt a ‘mixed’ approach to addressing the funding gap through a series of ‘themes’.
- 1.2.6 Copies of the STS and MTFS as adopted by Council in February 2022 are included in the Council’s Revenue & Capital Budgets document which can be found [here](#) for reference.

### 1.3 Update of the MTFS

- 1.3.1 As mentioned, the MTFS is updated on a “working” basis throughout the year, and Cabinet is apprised of the general direction of travel.
- 1.3.2 When the Budget was set in February, the adopted MTFS identified a gap of circa £2.15m. In June, Cabinet were advised that the funding gap was anticipated to be between £2.5m and £3.0m.
- 1.3.3 The report to Cabinet on 8 November shows the gap having grown to between £2.6m at best case to £3.8m at worst case.
- 1.3.4 Rather than repeat the issues that have been set out very clearly in the report to Cabinet, this report is attached in full as **[Annex 1]**.
- 1.3.5 It is imperative that the Cabinet prepares plans to deliver any scenario (best, middle or worst). Dividing the funding gap into tranches as we have done for many years allows us to “flex” the approach as new information comes forward.
- 1.3.6 The officer assessment is that we need to escalate plans to deliver savings of £1.5m within the next 3 years, inclusive of the tranche of savings that is already in train. In outline that might mean:

Tranche 1 – underway £350,000 – by April 2023

Tranche 2 – £500,000 – by April 2024

Tranche 3 – £650,000 – by April 2025

There will, of course, be other Tranches to follow, with levels dependent upon whether we are at the “best” or “worst” case funding gap level.

## 1.4 Savings to address the Funding Gap

- 1.4.1 In the short term, work is already underway to deliver Tranche 1 of the required savings. The Cabinet report appended at Annex 1 sets out the detail of the savings achieved thus far, but for ease of reference they are as follows:

	£
Grants to Voluntary Groups	1,600
Members Allowances (no increase)	8,150
Replacement of Uniform System	50,000
Cleaner Borough Co-ordinator	18,800
Housing Technical Officer	750
Insurance	60,000
Out of hours service	15,000
Events Income	10,000
<b>Total (to date)</b>	<b>164,300</b>

- 1.4.2 At its meeting on 8 November, Cabinet will be reviewing Fees and Charges in readiness for 2023/24. If the proposals in the joint report of the Management Team and Cabinet Member for Finance, Innovation & Property are approved, this would generate an additional £50,000 to contribute to Tranche 1. Members will be updated as to whether Cabinet has recommended approval of these proposals at the meeting.
- 1.4.3 Members will note that even if the £50,000 is added to the total set out in the table above, this still leaves over £100,000 to achieve before the start of the financial year 2023/24. Management Team continues to strive to identify savings options within the policy framework set by Cabinet and Council as a whole.
- 1.4.4 In terms of the savings beyond Tranche 1, Members will appreciate from the ‘scale’ that this will require more than just “nips and tucks”. Savings of this magnitude can only be found through a change in policy in relation to the delivery of services. In other words, the Council’s financial stability will be in jeopardy if there are no changes to the size, scale and delivery models for the various services. Put even more bluntly, the Council will not survive if it does not review how (and even whether) it delivers its services and makes some difficult choices as a result.

- 1.4.5 It is important that focus does not simply fall on ‘discretionary’ services alone. Of course, many of the discretionary services are among those that are most important to residents. Focus needs to be given to ‘discretionary’ services and ‘mandatory’ services alike – just because a service is mandatory does not mean the same outcomes cannot be achieved through a different, and more cost effective, delivery model.
- 1.4.6 Often, there are discretionary elements of a mandatory service which can be adapted to make them more cost effective, or even ceased. We cannot afford to overlook these matters given the scale of the financial challenges facing the Council.
- 1.4.7 Many different strands of work are underway within the Council, under the control of the Management Team, to try to test “cost efficiency” for existing services.
- 1.4.8 Cabinet’s role to consider the “bigger picture” and determine which services should be subject to review – either in terms of size and scale, or whether the service in question should continue at all (if it is not mandatory). An example of this is a report to Cabinet on 8 November where the Council’s continued involvement in Sports Development & Youth Engagement is being reviewed.
- 1.4.9 Cabinet would **welcome input from the wider membership** as to the priority order for reviewing services. Whilst it is recognised that all services are valued, the reality is that there is simply not even funding to continue supporting each and every one to the extent the Council currently affords.

## **1.5 Government Funding levels and council tax restrictions**

- 1.5.1 The report to Cabinet attached at Annex 1 acknowledges that one of the key financial challenges is that of a likely shrinking proportion of government funding.
- 1.5.2 Coupled with this, Members also know there are restrictions for district councils with regard to the raising of council tax (currently restricted to an increase of 2%, or £5). Given that council tax is now the largest single source of income for the Council, if these restrictions persist in the current economic climate where inflation is over 10%, these pressures will only get worse.
- 1.5.3 The Director of Finance & Transformation has stated in her report to Cabinet that unless the government recognise the scale of the pressure in future finance settlements and council tax referendum principles, it will be no surprise if a number of councils finances are under severe strain.
- 1.5.4 Representations are regularly made to government regarding these matters through partner organisation representing local government such as the Local Government Association (LGA) and District Councils Network (DCN). These will continue.

- 1.5.5 In addition, following the re-appointment of the Rt Hon. Michael Gove MP as Secretary of State for Levelling Up, Housing and Communities on 25 October, the Cabinet Member for Finance, Innovation & Property has written to Mr Gove setting out the uncertainties and challenges that are facing the council. A copy of the letter is attached at **[Annex 2]**. Members will be updated once a response is received.

## 1.6 Legal Implications

- 1.6.1 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.
- 1.6.2 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.

## 1.7 Financial and Value for Money Considerations

- 1.7.1 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.
- 1.7.2 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 2022/23, the general revenue reserve balance was circa £7.7m and together with the budget stabilisation reserve giving some headroom to deal with issues arising without more immediate 'draconian' measures.
- 1.7.3 Significant savings are required by April 2028 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.

## 1.8 Risk Assessment

- 1.8.1 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.

- 1.8.2 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.
- 1.8.3 The financial position is recorded as RED on the Strategic Risk Register, and Members' attention is drawn to this.

## **1.9 Policy Considerations**

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

Background papers:

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Nil

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