

11 October 2017		ITEM: 11 (Decision 01104440)
Cabinet		
Medium Term Financial Strategy Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Shane Hebb, Portfolio Holder for Finance		
Accountable Assistant Director: Sean Clark, Director of Finance and IT		
Accountable Director: Sean Clark, Director of Finance and IT		
This report is public		

Executive Summary

This report presents the latest version of the Medium Term Financial Strategy (MTFS) (appendix 1) and sets out the changes since the last published version considered by Council on 22 February 2017.

Savings proposals remain as set out in the February report with the exception of additional targets set out within the Service Review process that are being developed and will be set out in future reports to the Council Spending Review (CSR), relevant Overview and Scrutiny Committee and Cabinet.

Where growth and cross cutting proposals have provisionally been allocated to services, these have been set out in appendix 2 so as to inform Members of overall changes to Directorate budgets. These are draft and will be updated in future reports as allocations are refined.

1 Recommendation(s)

- 1.1 That Cabinet note the MTFS set out in appendix 1 and draft service impacts set out in appendix 2;**
- 1.2 That Cabinet support an investment approach alongside the principles set out in the report; and**
- 1.3 That officers submit a report to Council in October that enables this approach.**

2 Introduction and Background

- 2.1 Cabinet will be aware of the financial pressures that all councils have felt in previous years and that all face a challenge to become financially self-sustainable.
- 2.2 The MTFS presented to Full Council on 22 February 2017 showed pressures of £20.2m between 2018/19 and 2020/21 that, after CSR identified savings, reduced to a net three year pressure of £16.6m. The assumptions have now been updated to reflect current information and these figures are now revised to £20.8m and £14.9m respectively. Key changes include:
 - a) Improved forecasts for council tax and business rates totalling £1.8m;
 - b) An improved position on inflation and other increases of £1.4m;
 - c) Additional growth included to meet Children's and Environmental Services pressures; and
 - d) The inclusion of service review savings of £2.3m over the three years.
- 2.3 Council tax assumptions included within the MTFS include:
 - a) A 3% Adult Social Care precept in 2018/19 that is fully passed onto the service; and
 - b) A 1.99% general council tax increase in each of the three years.
- 2.4 The council adopted the CSR approach last year that concentrated on meeting the budget pressures through:
 - a) Increased income – this can be through the trading of core services through to investments from the treasury or property function;
 - b) More or same for less – focussing on better value from contracts and wider procurement, reducing spend on agency staff and more efficient processes; and
 - c) Reducing the growth pressures in demand led services – such as concentrating on early intervention.
- 2.5 This is underpinned by a detailed review of all services and is delivered through a number of officer Boards that ultimately brings proposals through the CSR to Overview and Scrutiny Committees and the Cabinet.
- 2.6 This approach was subjected to a Finance Peer Review, carried out by the East of England Local Government Association (EELGA) in June 2017. Key findings include:
 - a) Supporting this approach and stated that it is in line with practices carried out by other local authorities where there is no overall control;

- b) Ensure transparency and consistency. This largely relates to ensuring that papers are completed in good time to ensure that wording is clear and meaningful and provide Members with the correct level of detail. Where papers move through the process, every effort should be made to ensure that they are consistent and, if changes (for instance, due to new information) are required, these are made obvious and explained;
- c) Although not explicit in the Peer Review feedback, it has already been accepted that more information – such as the allocation of savings to services – is published so that all Members and the public have this level of detail;
- d) A further recommendation specific to the decision making process was relevant training for Members. Whilst general training is provided annually and officers attend Group Meetings, it is clear that:
 - a. More specific training is required that focuses on the financial position of the council, in both the short and medium term, and the role of Members in the process of budget setting; and
 - b. That Members need to be encouraged to attend these training sessions and consider whether they should become mandatory;
- e) Consider the overall capacity of the authority – this had a particular emphasis on the growth agenda. The Chief Executive will be reporting separately on this; and
- f) Consider all options for revenue generation, including investments.

2.7 External Audit also published their Value for Money Conclusion in September that focuses on the council's financial standing and its approach to budget setting. The conclusion was positive.

3 Issues, Options and Analysis of Options

- 3.1 Whilst considering options, it is important to remember that Thurrock Council has the third lowest net budget of all English Unitary Authorities, whilst having to deliver largely the same basket of services. This implies that most of the council services are already being delivered at a lower cost than the majority of other councils.
- 3.2 Whilst every effort is continually made to reduce the net cost of services, it is clear that the budget pressures as reported earlier in this report cannot be met from this approach alone without significant impact on front line services, with a clear risk of being able to maintain statutory services.
- 3.3 As such, the council has, in recent years, also delivered savings and increased income through, or supported by, its Treasury Function. These have included:
 - a) Debt restructuring;

- b) Challenges to the Minimum Revenue Provision;
 - c) Gloriana; and
 - d) Cash investments in ventures such as CCLA and Solar.
- 3.4 Together, these are currently benefitting the council by £11.7m per annum.
- 3.5 Whilst progressing the budget setting for the life of this MTFs, it is clear that a mix of service reviews, cross cutting reductions, general income increases and investments will be required. Though all equally important, investments have the greater ability to make significant income with the minimum of impact on service provision and so supporting an investment approach is recommended.
- 3.6 There obviously needs to be control over this approach and this is set out within the Treasury Management Strategy, last agreed at the Full Council meeting on 22 February 2017. In addition, the following principles are recommended:
- a) The agreement to invest does not supersede existing work streams such as the service review process, asset utilisation, etc;
 - b) Council should consider a diversified investment approach. This would include further cash investments, developing the Gloriana offer and ownership of income generating assets, especially where these support strategic objectives;
 - c) Investments should favour short-term borrowing by the council;
 - d) Appropriate due diligence, including the assessment of borrowing risk, must take place before new significant investments are made;
 - e) Accountability and governance to the Executive / wider council must be a critical component of “open” investments and an overview of any investment in excess of £10m and for longer than one year be presented to CSR before any firm commitment; and
 - f) There has to be firm differentiation between investments which have an implied municipal duty, and investments made in private sector markets. Where the latter, appropriate expertise must be procured so to ensure that the council does not obscure its role and manage entities outside of its expertise.
- 3.7 To achieve this in a timescale that both starts to deliver in 2018/19 but also gives greater certainty at the budget setting meeting in February 2018, it is recommended that a report be taken to the council meeting on 25 October 2017 to make appropriate changes to the Treasury Management Strategy.
- 3.8 If the council does not wish to follow this approach, services will need to accept reduced investment along with savings targets and bring forward

proposals that will likely focus on increased charging and service reductions whilst already meeting the proposed efficiency and cross cutting targets as set out in appendix 2.

4 Reasons for Recommendation

- 4.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report outlines the budget gap over the next three years as per the MTFS and the approach to manage the position.

5 Consultation (including Overview and Scrutiny, if applicable)

- 5.1 The budget planning governance structure includes involvement and consultation with Officers, Portfolio Holders and Members. The timetable allocates October To December for Overview and Scrutiny committees to consider proposals and public consultation where required. The process also includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who will meet regularly during the budget planning period and ahead of key decision points.

6 Impact on corporate policies, priorities, performance and community impact

- 6.1 The implementation of previous savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.
- 6.2 The MTFS also provides additional funding for the Environment Service to meet current pressures and those expected in the future as contracts are renewed.

7 Implications

7.1 Financial

Implications verified by: **Sean Clark**

Director of Finance and IT

The financial implications are set out in the body and appendices of this report.

Members and officers have a legal responsibility to ensure that the Council can contain spend within its available resources and this report sets out an approach to help achieve this over the coming years.

7.2 Legal

Implications verified by: **David Lawson**

Deputy Head of Law & Governance

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

7.3 Diversity and Equality

Implications verified by: **Becky Price**

Community Development and Equalities

There are no specific diversity and equalities implications as part of this report.

7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

This report sets out an approach that will go a significant way in meeting the requirement for financial sustainability.

8 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- There are a number of working papers that support the assumptions in the MTFS and they are held within Corporate Finance.

9 Appendices to the report

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 – Draft Savings Allocation

Report Author:

Sean Clark

Director of Finance and IT

Finance and IT

Narrative	2018/19		2019/20		2020/21	
	£000		£000		£000	
1. Local Funding						
Council Tax Base / Charge	(1,739)		(1,791)		(1,844)	
Council Tax Social Care Precept	(1,860)		(50)		(50)	
Council Tax Collection Fund Surplus	558		0		0	
		(3,042)		(1,841)		(1,894)
Business Rate Growth	(933)		(378)		(658)	
Business Rates Section 31 Grants	0		0		0	
Business Rate - Collection Fund Deficit	(1,773)		0		0	
		(2,706)		(378)		(658)
2. Total Government Resources						
Revenue Support Grant	3,962		4,000		658	
New Homes Bonus	674		122		(180)	
Other Central Grants - ESG & HB and Ctax Admin Subsidy	300		300		300	
		4,936		4,422		778
Net Additional (Reduction) in resources		(811)		2,204		(1,775)
3. Inflation and other increases						
Pay award at 1%, Increments and legislative changes	1,481		1,398		1,398	
Waste contract inflation	403		371		389	
Non Contract Inflation - Utilities and Fuel and Oil	100		100		100	
Levy adjustment	45		54		0	
		2,029		1,923		1,887
4. Capital Financing						
Prudential Borrowing & Treasury Management	2,976		1,240		1,664	
		2,976		1,240		1,664
7. Demographic and Economic Pressures, Including:						
Demand - Adults Precept	1,860		0		0	
Waste Demographics / Childrens Services / Other	3,200		2,200		2,200	
		5,060		2,200		2,200
9. Services Design Principals and Strategic Boards						
Procurement Total	(205)		(205)		0	
Commercial Total	(557)		(391)		(100)	
Customer & Demand Management Total	(100)		0		0	
Digital Total	(280)		(190)		0	
People Total	(500)		(500)		0	
Property Total	(275)		(200)		0	
Service Reviews	(750)		(800)		(800)	
		(2,667)		(2,286)		(900)
Total Savings to Identify		6,587		5,281		3,077
Cash Investments - Target £1m + additional per annum (this is Real in 18/19)	(1,229)		(1,200)		(1,200)	
"Gloriana" - currently clearing £1m pa - aim for further developments	(250)		(1,000)		(1,750)	
Other known property related investments	0		(1,000)		(1,000)	
		(1,479)		(3,200)		(3,950)
Balance to be achieved through investment approach and / or service budget reductions		5,108		2,081		(873)

Service	2017/18 Net Current Budget (July 2017) £000	MTFS change in resources 2018/19 £000	MTFS growth, inflation & other increases 2018/19 £000	2018/19 Saving Proposals								Indicative Budget 2018/19 £000
				MTFS Invest. Income 2018/19 £000	Commercial £000	Customer & Demand Mgt £000	ICT/ Digital £000	People £000	Procurement £000	Property £000	Service Review £000	
Environment	16,960		441		(162)			(104)				17,135
Planning & Growth	2,611							(24)				2,587
Trans. & Highways	6,134		19					(10)				6,143
Regeneration	689							(5)				684
Assets	1,652		25					(10)		(275)		1,392
Environment and Place Total	28,046	0	485	0	(162)	0	0	(153)	0	(275)	0	27,941
Care & Targeted Outcomes	26,343		1					(131)	(10)			26,203
Central Admin Support and Other	1,142				(20)			(7)				1,115
Learning & Univ. Outcomes	6,456		4					(37)				6,423
School Transport	805								(100)			705
Children's Services Total	34,746	0	5	0	(20)	0	0	(175)	(110)	0	0	34,446
External Placements	22,319		1,860						(100)			24,079
Provider Services	8,802		3					(116)				8,689
External Commissioning	1,906							(1)				1,905
Public Health	0											0
Community Development	617											617
Adults; Housing and Health Total	33,644	0	1,863	0	0	0	0	(117)	(100)	0	0	35,290
Homelessness	471							(4)				467
Private Sector Hsg	1,773							(1)				1,772
Travellers	(78)		4									(74)
Housing General Fund Total	2,166	0	4	0	0	0	0	(5)	0	0	0	2,165
HR & OD	4,387							(8)				4,379

Grand Total	0	(812)	10,066	(1,479)	(557)	(100)	(280)	(500)	(205)	(275)	(750)	5,108
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