

# Overview and Scrutiny Committee



**Forest Heath**  
District Council

|                            |   |                   |
|----------------------------|---|-------------------|
| <b>Title of Report:</b>    | <b>Approach to delivering a sustainable medium term financial strategy 2016 - 2020 and consideration of the four year settlement offer from central government</b>  |                   |
| <b>Report No:</b>          | <b>OAS/FH/16/022</b>  |                   |
| <b>Report to and date:</b> | <b>Overview and Scrutiny Committee</b>  | 15 September 2016 |
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| <b>Lead officer:</b>       | Rachael Mann<br>Head of Resources and Performance<br><b>Tel:</b> 01638 719245<br><b>Email:</b> <a href="mailto:Rachael.mann@westsuffolk.gov.uk">Rachael.mann@westsuffolk.gov.uk</a>   |                   |
| <b>Purpose of report:</b>  | To gain support for the Council's approach to delivering a sustainable medium term financial strategy 2016 -2020. To also gain Council's direction on whether it wishes to accept Government's offer of a four-year finance settlement. |                   |

|   |  |
|---|--|
| <b>Recommendation:</b>  | <p><b>That the Overview and Scrutiny Committee <u>RECOMMEND</u> to Cabinet the following recommendations, subject to Full Council approval:</b></p> <p>(1) Support the approach to delivering a sustainable medium term financial strategy 2016 -2020 as set out in this paper</p> <p>(2) Accept Government’s offer of a four-year Finance Settlement, and authorise the Head of Resources and Performance (Chief Financial Officer) to advise Government of Council’s decision.</p> <p>(3) That the Council’s existing Medium Term Financial Strategy (MTFS) document and this approach paper be recognised as the Council’s Efficiency Plan, for the purposes of accepting any four-year Finance Settlement under (1) above.</p> |
| <b>Consultation:</b>  | <ul style="list-style-type: none"> <li>• Through the Scrutiny Committee, onto Cabinet and Full Council.</li> <li>• Member briefings to be made available</li> </ul>  |
| <b>Alternative option(s):</b>   | <ul style="list-style-type: none"> <li>• To not accept the 4 year settlement and proposed approach. This would mean that the Council would not benefit from certainty over future funding levels.</li> </ul>   |
| <b>Implications:</b>  |  |
| <i>Are there any <b>financial</b> implications? If yes, please give details</i>           | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/><br><ul style="list-style-type: none"> <li>• See main body of this report</li> </ul>  |
| <i>Are there any <b>staffing</b> implications? If yes, please give details</i>            | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/><br><ul style="list-style-type: none"> <li>• None as a result of this report</li> </ul>   |
| <i>Are there any <b>ICT</b> implications? If yes, please give details</i>                 | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/><br><ul style="list-style-type: none"> <li>• None as a result of this report</li> </ul>   |
| <i>Are there any <b>legal and/or policy</b> implications? If yes, please give details</i> | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/><br><ul style="list-style-type: none"> <li>• See main body of this report</li> </ul>  |
| <i>Are there any <b>equality</b> implications? If yes, please give details</i>            | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/><br><ul style="list-style-type: none"> <li>• None as a result of this report</li> </ul>   |

| <b>Risk/opportunity assessment:</b>  |   |   |                                       |
|--|---|---|---------------------------------------|
| <b>Risk area</b>   | <b>Inherent level of risk (before controls)</b> | <b>Controls</b>   | <b>Residual risk (after controls)</b> |
|  | Low/Medium/ High*                               |   | Low/Medium/ High*                     |
| Lack of medium term funding to support delivery of the West Suffolk Strategic Plan                                 | Medium  | Approval of the approach contained in this report, to delivering a sustainable medium term financial strategy 2016 - 2020 to ensure resources are available to deliver projects and therefore strategic priorities. Ensure medium term business planning process in place to fully assess value for money of detailed proposals | Low                                   |
| Uncertainty annual central government funding over the medium term   | Medium  | Acceptance of governments four year settlement offer. Monitor potential risks (i.e. introduction of 100% business rates) to level of funding  | Low                                   |
| <b>Ward(s) affected:</b>   |   | All Wards   |                                       |
| <b>Background papers:</b><br><i>(all background papers are to be published on the website and a link included)</i> |   | Item 95 - <a href="https://democracy.westsuffolk.gov.uk/ieListDocuments.aspx?CIId=129&amp;MIId=2981&amp;Ver=4">https://democracy.westsuffolk.gov.uk/ieListDocuments.aspx?CIId=129&amp;MIId=2981&amp;Ver=4</a>   |                                       |
| Documents attached:  |   | <ul style="list-style-type: none"> <li>• Appendix A – DCLG Multi-year settlement and Efficiency plan letter</li> <li>• Appendix B – Visual document for MTFS themes and approach</li> <li>• Appendix C – MTFS Work packages</li> </ul>  |                                       |

**1. Background**

- 1.1 The current West Suffolk Medium Term Financial Strategy (MTFS) was approved by full council for FHDC on 16 September 2015. The six MTFS themes (see paragraph 1.4 below) continue to be at the forefront of both councils' financial strategies for delivering a sustainable medium term budget. As the financial landscape of local government changes so to does our approach to and application of each of the six themes.
- 1.2 The approach(es) taken to date to deliver our year-on-year savings programmes have, in the main, been very successful, delivering balanced budgets that have held up to member scrutiny and challenge and been able to absorb changes as a result of external circumstances.
- 1.3 For the 2014/15 budget process we took an extra step to align our resources to both the new West Suffolk strategic plan 2014-16 and the financial requirements of delivering essential services – one of our MTFS themes. We then took the opportunity to consider the other five MTFS themes across the remaining elements of our budget (those services that were non-priority and non-essential) to consider reducing their costs or investing to earn in order to minimise any reduction in service delivery. At that time the main driver for savings was still through the continuation of the shared service agenda and transformation of service delivery and digitising customer access.
- 1.4 Our six MTFS themes, as approved in the MTFS 2016-2020, are:
1. aligning resources to both councils' new strategic plan and essential services;
  2. continuation of the shared service agenda and transformation of service delivery;
  3. behaving more commercially;
  4. considering new funding models (e.g. acting as an investor);
  5. encouraging the use of digital forms for customer access; and
  6. taking advantage of new forms of local government finance (e.g. business rate retention).

**A shift in emphasis – income generation**

- 1.5 This approach (alignment and then overlaying the remaining MTFS themes) continued into the 2015/16 and 2016/17 (current year) budget process but with a noticeable shift from cost reduction initiatives through shared services and transforming / digitising services to a move towards income generation. This included our services behaving more commercially and considering new funding models, such as the joint venture for facilities management and establishing our housing company, Barley Homes (Group) Ltd.
- 1.6 As we start to look towards our financial challenges for 2017/18 onwards it is likely that this shift towards behaving more commercially and considering new funding models will continue. We have a number of projects in the pipeline that involve income generation to increase self-sufficiency and self-sufficiency, in order to stay ahead of the curve and to ensure we have a core funding stream to support our future service delivery. However, we must also ensure focus is given to how we take advantage of new forms of local government finance, through business rates growth, for example.

1.7 It is worth noting that Forest Heath has an excellent track record of delivering cost reduction plans. However, generating new income streams or growing existing income streams, looking at new funding models for investment, or taking advantage of new forms of local government finance are a different ball game altogether. For these areas the efforts required (including funding) versus financial rewards are sometimes unknown or difficult to predict accurately and so it requires a different approach to budgeting in terms of assumptions, risk, presentation and appetite for officers and members.

**1.8 Budget gaps – reminder**

1.9 Listed below are the current medium term budget gaps and an analysis of the main factors creating those budget gaps.

**1.10 Table 1**

|                             | Forest Heath    |                 |                 |
|-----------------------------|-----------------|-----------------|-----------------|
|                             | 2017/18<br>£000 | 2018/19<br>£000 | 2019/20<br>£000 |
| <b>Budget gap per MTFs:</b> |                 |                 |                 |
| 2017/18                     | 950             | 950             | 950             |
| 2018/19                     |                 | 450             | 450             |
| 2019/20                     |                 |                 | 220             |
| <b>Cumulative gap</b>       | <b>950</b>      | <b>1,400</b>    | <b>1,630</b>    |

**2. Approach to delivering a sustainable medium term financial strategy 2017 -2020**

2.1 One of the other noticeable differences in approach needed for this year’s budget process is the need to look more at the medium term budget position. We also need to balance those projects that will deliver new income streams to mitigate the reduction in revenue support grant; alongside those needed to address our underlying requirement to continually live within our means.

2.2 One of the reasons Forest Heath experiences year on year budget gaps is as a result of net inflationary pressures (income inflation assumptions are less than cost inflation assumptions). We need to get to the root cause and try and mitigate this in the first place instead of simply creating year-on-year savings or new income to try and cover it, which is the current approach.

2.3 We have a handful of strategic projects (such as the West Suffolk Operational Hub and Mildenhall Hub) that seek investment to deliver on operational responsibilities across West Suffolk. These projects also look to address future growth and meet operational demand for the area at the same time as taking the opportunity, sometimes being the first, to really transform public sector service delivery through greater integration with the wider public sector and our key partners.

- 2.4 Alongside these types of projects, we also have a number of strategic projects across West Suffolk (such as the housing company and solar project) under the behaving more commercially / new funding model agendas (new income streams). These projects also require significant investment in order to be unlocked / delivered and so the need to look at the medium term position is key to understanding the impact of these projects, not just the year of outlay.
- 2.5 All of these projects require significant officer and member focus. They involve project teams, supported by various cross-council disciplines, to carry out the feasibility stage, develop detailed business case(s), seek approval, manage delivery and then embed the final delivered product seamlessly into the council's day-to-day service delivery.
- 2.6 These projects often have long lead-in times too, but generate significant financial and non-financial benefits for the council, its residents and business communities. As these projects often span more than two financial years we need to look in more detail now with regards to our medium to longer term planning and not just the new financial year ahead. We shouldn't and cannot take our eyes off our statutory requirement to set a balanced budget each year. However, we can start to explore the use of our reserves to act as a temporary tool to manage the timings of these projects and their financial returns across the medium term as long as we balance and replenish the reserves we require in the medium term.
- 2.7 This approach won't remove the need for an annual savings programme, not least because the projects that are live or in the pipeline in themselves do not deliver sufficient savings to meet our medium term position. Also because we shouldn't lose sight of the fact that, even without reductions in government funding, we need to continue to live within our means. It feels that it is the right time now to get into the root causes of our annual net inflationary cost issues. This means we will need to add to our list of current projects/workload to address this issue and to achieve a balanced medium term budget.
- 2.8 With so many project opportunities, both those in the pipeline and those that are likely to join as a result of this MTFS work, it seems we need to establish some core financial outcomes for each project to be assessed against in order to prioritise. It is important that we find a way through management and delivery of all the projects required to achieve our core financial outcomes (and a balanced medium term budget) as well as our strategic outcomes (to run alongside this work to inform the West Suffolk Strategic Plan 2017-2020).
- 2.9 These are the proposed financial outcomes required.
- Seeks to address (or protect us with) our operational/statutory responsibilities and/or one or more MTFS issues:
    - unfunded leisure/property assets – capital;
    - growth in service demand – council tax doesn't cover incremental cost.
  - Contributes financially towards our move to being self-sufficient and the removal of revenue support grant.
  - Addresses our underlying inflation cost pressures.

2.10 In order to bring all this MTFS work together, a work package approach is proposed. These work packages are set out in **Appendix C** to this report. The MTFS themes would continue to be a key feature in our thinking as we look at each work package. **Appendix A** shows visually the links.

**3. Four-year settlement offer**

3.1 The above approach is very timely as it will help shape the council’s response to central government’s offer to all local authorities of a four-year finance settlement 2016-2020, which was announced in the autumn budget statement in 2015. A response along with an efficiency plan (if the response is to accept the settlement) is required to be submitted to Government by 14 October 2016.

3.2 On 9 February 2016 the Government provided summaries and breakdown figures for each year of the four-year settlement to each council. It was confirmed that the relevant grants included in the multi-year settlement offer, where appropriate, were:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

3.3 The breakdown figures for each year of the four-year settlement to Forest Heath is set out in table 2 below:

**Table 2**

| <b>4 year settlement total</b> |              |
|--------------------------------|--------------|
|                                | <b>FHDC</b>  |
|                                | <b>£K</b>    |
| <b>2016/17</b>                 | 1,026        |
| <b>2017/18</b>                 | 679          |
| <b>2018/19</b>                 | 454          |
| <b>2019/20</b>                 | 214          |
| <b>2015/16 (for info)</b>      | <b>1,291</b> |

3.4 The Government commitment is to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan. All available details and terms of the four-year offer are included at **Appendix A**.

3.5 Importantly, the multi-year settlement projections referred to in the **Annex** to the **Appendix A** are already reflected in the council’s MTFS. It is clear that Government are taking a very light touch approach, in both their offer and what authorities need to do to sign up for it.

**4. Four-Year Settlement Offer Process**

4.1 With regard to the four-year settlement offer, council could take either of the options below.

**4.2 Accept Government's offer**

It is understood that Government intend to honour the grant figures previously announced, and so this option is expected to be neutral in terms of its impact on existing financial projections and financial strategy. This option would give more certainty for financial planning purposes, therefore for these reasons, it is the recommended option.

**4.3 Reject Government's offer**

This would give no certainty over funding levels. The expectation should be that if this option is chosen, there would be greater risk that future funding would be less than currently offered, rather than there being more chance of settlement funding increasing. The council's MTFs would need amending to reflect this. As set out in **Appendix A**, the Secretary of State (SoS) highlights that the 'offer is entirely optional. It is open to any council to continue to work on a year-by-year basis, but the SoS cannot guarantee future levels of funding to those who prefer not to have a four year settlement'. It seems therefore, that there is no obvious benefit in pursuing this option.