

Performance and Audit Scrutiny Committee



Title of Report:	Delivering a Sustainable Medium Term Financial Strategy 2017-2020	
Report No:	PAS/FH/16/032	
Report to and dates:	Performance and Audit Scrutiny Committee	24 November 2016
	Cabinet	13 December 2016
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Purpose of report:	The purpose of this report is to update members on progress made towards delivering a balanced budget for 2017/18 and sustainable budget in the medium term, and to recommend to Cabinet inclusion of the proposals in the report to progress securing a balanced budget for 2017/18 and sustainable budget in the medium term.	
Recommendations:	<p>It is <u>RECOMMENDED</u> that members:</p> <p>(i) Note the budget assumptions (outlined in Appendix A) and timetable (at 7.1), along with the progress made to date on delivering a balanced budget for 2017/18 and sustainable budget in the medium term; and</p> <p>(ii) Recommend to Cabinet the inclusion of the proposals, as detailed in section 5 and Table 2 at paragraph 5.1 of this report.</p>	

Recommendations Continued:	<p>(iii) Recommend to Cabinet that the items in 5.2 are treated as pending budgets that will require the necessary approvals before they can be committed.</p> <p>(iv) Recommend to Cabinet that the items in paragraph 5.3 be removed from the capital programme.</p> <p>(v) Recommend to Cabinet that the reserve transfers as detailed in 5.4 be approved.</p>		
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>		
Consultation:	<ul style="list-style-type: none"> Leadership team (LT), Portfolio Holders and staff are consulted during this budget process 		
Alternative option(s):	<ul style="list-style-type: none"> Other options could be proposed and considered by members. They would need to take into account core principles such as deliverability, affordability and risk. 		
Implications:			
<p>Are there any financial implications? If yes, please give details</p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>As detailed in the body of this report</p>		
<p>Are there any staffing implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>		
<p>Are there any ICT implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>		
<p>Are there any legal and/or policy implications? If yes, please give details</p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Whilst it should be stated that this is an unlikely event there is a requirement under The Local Government Finance Act 1988 (S114) - for the Chief Finance Officer to report to councillors if there is or is likely to be an unbalanced budget.</p>		
<p>Are there any equality implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>To be considered as part of implementation of service changes</p>		
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*

Impact of changing financial circumstances is different across the two West Suffolk councils potentially in the longer terms, leading to diverging strategies (e.g. different focus by the councils on service impacts or investment projects).	High	A single leadership team working with the two councils' Cabinets to take an overview; spotting pressure points and possible innovative approaches; and recommending appropriate actions to members. Consider further shared working, joint decisions etc.	Medium
Savings/income projections are not achieved resulting in budget deficit.	Medium	Budgetary control, including reporting of variances to members. Use of general fund reserves to cover budget deficits.	Low
The business rate retention scheme underachieving the yield assumed in the MTFS which impacts on the budget gap requirement.	High	Work with the Anglia Revenues Partnership team to monitor the position and deliver a realistic forecast.	Medium
Adverse changes in the assumptions, for example changes to the provisional formula grant settlement, used in the MTFS resulting in a larger budget gap.	Medium	The assumptions are regularly monitored and updated. Use of general fund reserves to cover budget deficits.	Low
100% Business rates Retention implementation prior to 2019/20 and rules therein.	Medium	Constant monitoring of guidance issued and reflection in assumption	Low
Business rates 2017 revaluation - increase in costs of council owned properties.	High	Transitional relief will be available to smooth the impact over time but details are not yet available.	Medium
Ward(s) affected:	All Wards		
Background papers: <i>(all background papers are to be published on the website and a link included)</i>	COU/FH/16/004 Budget and Council Tax Setting 2016/17 West Suffolk Strategic Plan and Medium Term Financial Strategy 2016-2020 CAB/FH/15/038 FH OAS/FH/16/022 Report - Approach to delivering a sustainable medium term financial strategy 2016 - 2020 and consideration of the four year settlement offer from central government		
Documents attached:	Appendix A – Budget Assumptions 2017/18 and across the MTFS		

1. Key issues and reasons for recommendations

- 1.1 The interaction between the West Suffolk Strategic Plan and West Suffolk Medium Term Financial Strategy (MTFS) continues to be increasingly important in the setting of budgets, as the council's priorities will need to be used to inform real choices about the allocation of limited resources.
- 1.2 Our MTFS document also sets out the approach that Forest Heath District Council will take to the sound management of its finances over the medium term, in particular the next three years 2017-2020.

2. Future budget pressure and challenges

- 2.1 Forest Heath continues to face considerable financial challenges as a result of increased cost and demand, plus pressures and constraints on public sector spending (Revenue Support Grant) from central government, as evidenced by the proposed four year government settlement. It is clear that even without the proposed reductions in Revenue Support Grant (RSG), the council has underlying net cost pressures. This includes costs rising faster than income inflation.
- 2.2 The MTFS 2016-2020, approved at Full Council on 24 February 2016 (Report COU/FH/16/004), sets out the current and future financial pressures and challenges facing Forest Heath.
- 2.3 The report "West Suffolk Operational Hub" (CAB/FH/16/023) which was approved by Council on 29 June 2016, sought approval for the allocation of capital project funding. The ongoing revenue implications in respect of this project have been included in the budget gap figures below.
- 2.4 The report "Approach to delivering a sustainable medium term financial strategy 2016" (report CAB/FH/16/041) which was approved by Council on 28 September 2016 included a number of funding requests in respect of Economic Development and growth funding. These have been taken account of in the budget gap figures below.

3. Budget gap and budget assumptions

- 3.1 Taking known budget pressures into account as at February 2016 and allowing for the items detailed above in 2.3 and 2.4, the total savings target we need to reach to bridge the budget gap we face for 2017/18 currently stands at £0.9 million, a cumulative sum of £1.6 million for the period 2017-2020.

Table 1: Budget gap for 2017/18-2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
Budget gap per MTFS:			
2017/18	949	949	949
2018/19		407	407
2019/20			224
Cumulative gap	949	1,356	1,580

- 3.2 It is important to note that there are limitations on the degree to which Forest Heath can identify all of the potential changes within its medium term financial projections. It is also important to remember that these financial models have been produced within a financial environment that is constantly changing and that they will be subject to significant change over time.
- 3.3 The above assumes 0% increase in council tax which will be subject to a separate democratic process through to February Council in 2017.

4 Methodology for securing a balanced budget 2017-2020

- 4.1 The Overview and Scrutiny Committee recently scrutinised and recommended the approach to our medium term planning 2017-2020 (report FH-OAS/FH/16/022 refers).
- 4.2 In summary, the approved six MTFS themes below continue to be at the forefront of Forest Heath District Council's financial strategy for delivering a sustainable medium term budget:
1. aligning resources to both West Suffolk councils' 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).

4.2 One of the noticeable differences in approach needed for this year's budget process is the need to look more at the medium term budget position. There are three main reasons for this:

- our projects will incur costs up front however release benefits over a number of years;
- the shift towards behaving more commercially and considering new funding models often spans over more than a standard 12 month budget period; and
- the work package approach (detailed in 4.3) involves a review of a number of key areas. This includes the need to address underlying net inflationary cost pressures, contract profiles and opportunities, delivery vehicles, commercial asset portfolio opportunities- many of which will create financial return/savings across the medium term.

4.3 In order to bring all the MTFs work together, a work package approach was undertaken. The most advanced of the work packages is the 'Review of budget assumptions' which included:

- establishing a list of key corporate and service budget assumptions and the basis of those assumptions, in particular income assumptions;
- challenging services on the basis of assumptions and inflation, including demand management and target operating model principles. Review of previous outturn positions against current assumptions;
- review of inflationary assumptions and drill down into root cause in order to consider mitigation strategy; and
- establish a corporate approach to budget assumptions including risk assessment, use of reserves (such as equalisation reserves) and sensitivity analysis.

4.4 The above approach is very timely as it helped 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. Our acceptance along with an efficiency plan was submitted to Government by the deadline of 14 October 2016.

4.5 Our projects will be individually approved based on business cases but can be categorised as set out in paragraph 4.6 and 4.7 below to understand the range of reasons why they are proposed. 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 and mitigate our net inflationary pressures.

4.6 We have a handful of strategic projects (such as the West Suffolk Operational Hub and Mildenhall Hub) that seek investment to deliver our operational responsibilities. These projects also look to address future growth and meet operational demand for the area at the same time as taking the opportunity,

sometimes through being a pioneer, to really transform public sector service delivery through greater integration with the wider public sector and our key partners.

- 4.7 Alongside these types of projects, we also have a number of strategic projects across West Suffolk (such as the solar farm project and housing company) under the behaving more commercially and new funding model agendas, which are focused on growth and generating new income streams). These projects also require significant investment in order to deliver results over a number of years 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.
- 4.8 The scale of financial changes that need to be made to ensure that Forest Heath's shared priorities can be delivered in 2017/18 is significant, especially as the projected £0.8 million budget gap for 2017/18 and subsequent years is on top of the savings already delivered locally by the council over the years and the £4 million annual shared service savings delivered across West Suffolk with St Edmundsbury Borough Council.
- 4.9 As a result, a considerable amount of work has already been undertaken on income generation ideas and further identification of potential savings in order to secure a balanced budget for 2017/18 and prepare for the medium term up to 2019/20.

5. Budget proposals for 2017-20

- 5.1 The Performance and Audit Scrutiny Committee is asked to support and recommend to Cabinet the **inclusion of the following proposals**, as detailed in Table 2 below in order to progress securing a balanced budget for 2017/18.

Table 2: Budget proposals for 2017-20

	2017/18 Pressure/ (Saving) £000	2018/19 Pressure/ (Saving) £000	2019/20 Pressure/ (Saving) £000
Budget Gap	949	1,356	1,580
Current proposals:			
Income Assumptions:			
Business Rates Income - revised figures based on latest ARP data	(95)	(166)	(197)
Local Land Charges Income, budget reinstated following removal from MTFS due to legislative changes	(111)	(111)	(111)
Car Park Income: volume increases based on current levels allowing for increased demand	(14)	(20)	(26)
Trade Waste Income: Revise budget assumption based on historical actuals	15	40	66
Service Level Agreements - additional income mainly from ACAS	(43)	(43)	(43)
Current Property Portfolio income assumption changes, following initial income review	(61)	(111)	(41)
Investment Income revisions resulting from interest rate reductions and capital programme changes	110	101	228
Planning & Building Regulation Fees - revised based on current levels	(43)	(58)	(71)
Community Energy Plan revised budget assumptions based on current levels	6	(22)	(22)
Council tax income - revised figures based on updated taxbase	28	86	146
Expenditure Assumptions:			
Waste Tipping Charges - increased gate fees	29	29	29
Leisure Management Fee Reductions as approved by Cabinet	(60)	(60)	(60)
Housing Benefit - rephasing of budget to achieve cost neutral position by 2020/21 in line with universal credit	0	50	100
Projects:			
Solar Farm Project projections (net position)	(283)	(350)	(385)
Continuation of the Small Business Support Grants Scheme	20	20	20
Other:			
Use of Strategic Priorities & MTFS Reserve to fund Locality Budgets and Community Chest	(163)	(163)	(163)
Other Budget Assumptions, pressures, income and contracts	(18)	(54)	(45)
Remaining Budget Gap *	266	524	1,005

*The budget gap as reported in the table above is still subject to ongoing work as part of the budget setting process, and an updated position will be presented to this committee at its January meeting.

- 5.2 The introduction of the Garden Waste Collection Service in April has proved to be relatively successful. New processing contracts are working well, levels of participation are broadly as we had anticipated and supporting technology has been adopted within the operations teams. However, it is still early days and the full impact of this change in terms of waste collection and disposal are still to be fully understood. We will be reviewing data over the medium term to test the budget assumptions at county level and within our own MTFS. Members will recall that the financial arrangements that underpin these changes have been fixed for up to three years to provide sufficient time to fully understand the full impact of this change.

Pending Project Proposals and Capital Programme 2017-2020

- 5.3 The projects and review of capital programme work package has identified that Forest Heath have a number of projects in the pipeline, such as the Leisure Partnership Agreement and Housing Company projects, where full Business Cases have not yet been approved. Both the Leisure Partnership Agreement and Housing Company projects have business cases planned to be considered at December Council, at which point the capital and revenue returns will be included in the budgets going forward and the budget gap currently shown in table 1 above will be revised.
- 5.4 However, in order to plan over the medium term, provision should be also be made in the revenue and capital budget projections for those projects we are aware of but are yet to approve. The January committee report will therefore propose to add these as pending budgets which will require the necessary approvals before they can be committed.
- 5.5 A review of the capital programme has identified that there were some projects that required no further capital allocation. It is therefore proposed that the following projects are removed from the capital programme:

Table 3: Capital programme – projects to be removed

Project Description	2016/17 Residual Budget £000s	Notes
Enterprise Hub/Innovation Park	1,450	Moved from short to medium term strategic priority list
Housing Strategy	150	Delivered through detailed projects and actions
Feasibility Studies	100	Move to Revenue, continued to be funded from the MTFS and Strategic Priorities Reserve

- 5.6 The project support, skills and capacity work package review identified some skills and capacity challenges in supporting our exciting, but complex, range of services and growth projects, both for in terms of current and future projects. The leadership team is therefore working to increase capacity and skills where it is needed and will seek to do so within the overall salary budget. It's critical that we ensure the right capacity and skills are in place to go beyond the 'planning' and into the 'delivery' phase in order to achieve the financial expectations in our Medium Term Financial Strategy and to deliver our sustainable, self-sufficient future.
- 5.7 As a result of the MTFS review, the following transfers between earmarked reserves have been proposed:

Table 4: Earmarked reserves – proposed transfers

Reserve Name	2016/17 Forecast Closing Balance £	Adjustment Proposed £	New balance £	Notes
ARP	311,789	(100,000)	211,789	To HB Equalisation
HB Equalisation	161,321	100,000	261,321	From ARP
Building Maintenance - Leisure	0	27,932	27,932	From Leisure
Leisure	27,932	(27,932)	0	To Building Maintenance - Leisure
Building Maintenance - Other	0	56,170	56,170	From Car Park Development
Car Park Development	56,170	(56,170)	0	To Building Maintenance - Other
Invest to Save	221,027	83,061	304,088	From reserves below
Local Land Charges	50,142	(50,142)	0	To Invest to Save
Staff Training	22,582	(22,582)	0	To Invest to Save
Planning Policy Statement Climate Change	2,579	(2,579)	0	To Invest to Save
Implementing Smoke Free Legislation	7,758	(7,758)	0	To Invest to Save
	861,300	0	861,300	

6. Business Rates Revaluation

- 6.1 The Valuation Office has issued and communicated its 2017 business rates revaluation list providing new rateable values (RVs) for every non-domestic property in England and Wales. This is the first revaluation exercise since 2010 and the new rateable values will take effect from 1 April 2017.
- 6.2 RVs have increased by 9.1% across England, with significant variations across sectors and regions. In Suffolk, there is an overall increase of 3.0% but this includes a 13.1% increase for Forest Heath and a 1.1% increase for St Edmundsbury.
- 6.3 It should be noted that the Government's intention is to neutralise the national impact on the business rates yield through the business rates retention scheme by adjusting the business rate multiplier (which is applied to the rateable value of a property to determine the level of rates payable by

that property) and to mitigate any impact at local authority level through the tariff and top-up payments we make.

- 6.4 We are currently working through the impact to West Suffolk for our own rates liabilities as property owners and will feed any impact through the 2017/18 budget process. Initial results show that there is likely to be an increased cost as a result of the 2017 valuation, however the exact impact is unknown as there is likely to be a Transition Scheme to phase in any significant changes at individual business level.
- 6.5 This information will not be available until the Autumn Statement is published on 23 November 2016, at which point officers will work with colleagues at ARP to calculate the impact on the medium term budgets.

7. Budget timetable

- 7.1 The table below outlines the timetable of budget information through the committees and to Full Council.

Table 5: Committee timetable for budgets

Task	Date
Performance and Audit Scrutiny Committee - consider progress report on 'Delivering a Sustainable Budget 2017/18'	24 November 2016
Cabinet to consider recommendations from Performance and Audit Scrutiny Committee - 24 November 2016	13 December 2016
Council approval of the 2017/18 Tax Base including any Council Tax technical changes	21 December 2016
Council approval of Local Council Tax Reduction Scheme and Council Tax technical changes 2017/18	21 December 2016
Performance and Audit Scrutiny Committee - updated report on 'Delivering a Sustainable Budget 2017/18'	25 January 2017
2017/18 Budget and Council Tax Setting - Cabinet.	14 February 2017
2017/18 Budget and Council Tax Setting - Full Council.	22 February 2017