

Performance and Audit Scrutiny Committee



Forest Heath
District Council

Title of Report:	Delivering a Sustainable Medium Term Financial Strategy 2018-2021	
Report No:	PAS/FH/17/038	
Report to and date/s:	Performance and Audit Scrutiny Committee	29 November 2017
	Cabinet	12 December 2017
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Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	The purpose of this report is to update members on progress made towards delivering a balanced budget for 2018/19 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 2018/19 and sustainable budget in the medium term.	
Recommendation:	It is <u>RECOMMENDED</u> that members: 1) Note the budget assumptions (outlined in Appendix A) and timetable (at 6.1), along with the progress made to date on delivering a balanced budget for 2018/19 and sustainable budget in the medium term; and 2) Recommend to Cabinet the inclusion of the proposals , as detailed in section 5 and Table 2 at paragraph 5.1 of this report.	

Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>		<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
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:			
<i>Are there any financial implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> As detailed in the body of this Report	
<i>Are there any staffing implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> 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.	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> No significant implications anticipated, however further consideration will be given as part of the implementation of each service change	
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 2020 and rules therein.	Low	Constant monitoring of guidance issued and reflection in assumption	Low
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/17/005 - Budget and council Tax Setting 2017/18 CAB/FH/17/007 - Delivering a Sustainable Medium Term Financial Strategy 2017-2020 OAS/FH/17/023 and Appendix B - Draft West Suffolk Strategic Framework		
Documents attached:	Appendix A - Budget Assumptions 2018/19 and across the MTFS		

1. Key issues and reasons for recommendation(s)

- 1.1 The interaction between the emerging West Suffolk Strategic Plan (included on the Overview and Scrutiny Committee on 9 November 2017) 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 2018-2021.

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 There continues to be increasing demand for support and advice relating to housing options and homelessness. Whilst the council has already increased staffing levels in the housing team, this additional demand is likely to continue for the foreseeable future. Demand pressures are as a result of continued welfare reform challenges, including the introduction of Universal Credit, the affordability of the local housing market and changes to Homelessness legislation which comes into force from April 2018. The Homelessness Reduction Act 2017 will increase the demand on the housing team with more people now being eligible for advice and prevention support, and relief from homelessness duties, than under existing legislation. Affordability and accessibility of the private rented sector is crucial in order for the council to discharge its new duties under the new act and, as for many councils, this will present a challenge. The continued inclusion of temporary accommodation in Universal Credit is likely to impact on the money the council receives to fund this accommodation compared to housing benefit.
- 2.3 The MTFS 2017-2020, approved at Full Council on 22 February 2017 (Report COU/FH/17/005), sets out further current and future financial pressures and challenges facing Forest Heath.
- 2.4 The implementation towards a 100% Business Rates Retention scheme and the review of the needs based assessment/formula that underpins our financial needs settlement from central government are both planned to be implemented in 2020/21. Both changes create significant uncertainty to the council's medium term financial planning assumptions.
- 2.5 The worst case scenario for the review of the needs based assessment/formula could be to re-set our financial needs settlement right back to a steady level of growth from 2013 rather than that actually

experienced in Forest Heath, thus removing the majority of the growth we retain under the current 50% BRR scheme. This would remove a significant amount of income (worst case - £0.4m) from the budget in 2020/21. This situation will be monitored and reviewed as information becomes available. We will continue to lobby and input into DCLG consultations in order to make our position clear.

3. Budget gap and budget assumptions

- 3.1 A balanced budget was set for FHDC as a result of last years MTFS process but after following the methodology in section 4 there is a current budget deficit position of £22k for 2018/19 but this moves to an accumulated deficit of £110k for the period 2018-2021. This is predominantly driven by increasing demand for homelessness support (section 2.2).

Table 1: Budget gap for 2018/19-2020/21

	18/19 £000	19/20 £000	20/21 £000
Budget gap per MTFS:			
2018/19	22	22	22
2019/20		39	39
2020/21			48
Cumulative Gap	22	62	110

- 3.2 This budget gap does not include, at this stage, any variation or profile changes either positively or negatively in respect of income/savings for the councils significant growth projects such as delivering our growth agenda (£20m investment fund), Mildenhall Hub or Barley Homes 5 year delivery plan. These are currently under review along with consideration of the overall resources and skills required to enable the delivery of our ambitious projects. These will be available for the January report through to this committee.
- 3.3 Any changes that would result from moving to a single council are also not currently included within the above table –these too will be available for the January report through to this committee.
- 3.4 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.
- 3.5 The above assumes a £4.95 increase in council tax per year which will be subject to a separate democratic process through to February Council in 2018.

4 Methodology for securing a balanced budget 2018-2021

- 4.1 The starting position is from the existing MTFS which is balanced for each year from 2017/18 out to 2019/20. This has enabled the methodology for revising this outlook to be focussed on three areas:

- 1 Challenging the pre-existing assumptions and updating these to reflect new knowledge and information.
 - 2 Collating new items that are required to support the delivery of West Suffolk Councils Strategic Plan.
 - 3 Reflect any changes in the wider macro environment which require a change in approach from FHDC.
- 4.2 The process to validate each of these areas has been driven by workshop sessions to understand the trends and drivers behind each of the income and expenditure lines within each service area and project. The outcome of the sessions has then been reviewed at an overall council level by the Leadership Team to ensure a collective, corporate view.
- 4.3 The six approved 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).

5. Budget proposals for 2018-21

- 5.1 The Performance and Audit Scrutiny Committee is asked to support and recommend to Cabinet the **inclusion of the following proposals/changes**, as detailed in **Table 2 below** in order to progress securing a balanced budget for 2018/19.

Table 2: Budget proposals for 2018-21

		18/19 Pressure/ (Saving) £000	19/20 Pressure/ (Saving) £000	20/21 Pressure/ (Saving) £000
Existing MTFS Position		0	0	0
Housing Options	Increase in volume of people requiring assistance - Costs	59	88	97
	Increase in volume of people requiring assistance - HB Recovery	(39)	(43)	(47)
	New Burdens Grant	(24)	(28)	0
Waste Collection	Brown Bin Income - Rephasing of Budget, keeping in line with the service being funded by users of the service.	(30)	0	0
Trade Waste	Additional staffing to reflect current and future service demand	46	46	46
	Increased Trade Waste Income to fund additional staffing levels	(46)	(46)	(46)
Industrial & Business Units	Additional income based off current forecast	0	(20)	(20)
Environmental Management	Delay in rent a roof capital programme item impacting revenue assumptions.	28	13	(2)
Land Charges	LLC1 Search Income lost due to transfer to HMLR mid 18/19	14	22	23
Developmental Control	Increase in Pre-Application Planning Income	(12)	(22)	(32)
Building Control	Change in Budget assumption to reflect 17/18 income trend and current market share.	27	29	29
Salary Budget	Final position following payroll review	TBC	TBC	TBC
Capital Programme	Revenue impact of changes to capital programme	TBC	TBC	TBC
Total Budget Gap		22	39	48

Table 2: Budget proposals for 2018-21

*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 Capital Programme underwent a comprehensive review for the 2017/18 budget setting process. This Programme will be reviewed and updated with known changes ready for the next Performance and Audit Scrutiny Committee review in January 2018.

6. Budget timetable

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

Table 3: Committee timetable for budgets

Task	Date
Performance and Audit Scrutiny Committee - consider progress report on 'Delivering a Sustainable Budget 2018/19'	29 November 2017
Cabinet to consider recommendations from Performance and Audit Scrutiny Committee - 29 November 2017	12 December 2017
Council approval of the 2018/19 Tax Base including any Council Tax technical changes	20 December 2017
Council approval of Local Council Tax Reduction Scheme and Council Tax technical changes 2018/19	20 December 2017
Member Development Session - Local Government Finance	18 January 2018
Performance and Audit Scrutiny Committee - updated report on 'Delivering a Sustainable Budget 2018/19'	31 January 2018
2018/19 Budget and Council Tax Setting - Cabinet.	14 February 2018
2018/19 Budget and Council Tax Setting - Full Council.	22 February 2018