

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/18/007	
Report to and date/s:	Performance and Audit Scrutiny Committee	31 January 2018
	Cabinet	13 February 2018
Portfolio holder:	Councillor Stephen Edwards Portfolio Holder for Resources and Performance Tel: 01799 530325 Email: stephen.edwards@forest-heath.gov.uk	
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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 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 the Performance and Audit Scrutiny Committee:	
		<p>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</p> <p>2) Recommend to Cabinet the inclusion of the proposals, as detailed in Section 5 and Table 2 at paragraph 5.1 of this report.</p>	
Key Decision:		<i>Is this a Key Decision and, if so, under which definition?</i>	
<i>(Check the appropriate box and delete all those that do not apply.)</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 - Draft West Suffolk Strategic Framework PAS/FH/17/038 - Delivering a Sustainable Medium Term Financial Strategy 2018-2021		
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 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 National Joint Council for Local Government has made a final pay award offer to the Trade Unions of a 2% increase in April 2018 and a revision to the national pay spine in 2019. The original assumptions have therefore been amended from 1% to 2% for 2018 and 2019 in the MTFS. The pay award is still under national negotiation however the pay inflation assumption has been updated to reflect the current offer.
- 2.4 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.
- 2.5 The implementation towards the now 75% 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.

- 2.6 The worst case scenario for the review of the needs based assessment/formula could be to re-set (although government now talk of a partial 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 After following the methodology in section 4 we continue to see a balanced budget position for Forest Heath as reported in Feb 2017. There are however some further work as set out in 3.2 below.

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

Forest Heath	18/19 £000	19/20 £000	20/21 £000
Budget gap per MTFS:			
2018/19	0	0	0
2019/20		0	0
2020/21			0
Cumulative Gap	0	0	0

- 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) and Mildenhall Hub.
- 3.3 However there has been a revision to the outlook for the Barley Homes 5 year delivery plan following the removal of Wamill Court from the first four developable sites. This is a prudent estimate at this stage, it may well be that a further site is brought forward, however the focus at this stage is on the remaining three sites.
- 3.4 Suffolk have been awarded 100% Business Rates pilot status for 2018-19 based on the proposal submitted on the 27 October 2017. The proposal builds on the Business Rates Retention pool Suffolk has successfully operated since 2013. In all pilot areas, the councils within the pool have to forego the funding streams of revenue support grant and rural services delivery grant in return for higher shares of business rates. The Suffolk pilot is based on a no detriment to each of the council's and therefore the risk to the Council's budget of not achieving the business rates anticipated in the 2018-19 budget is low. Any additional business rates collected in Suffolk will be invested in inclusive growth on a placed based allocation. Based on the proposal submitted, West Suffolk is looking to receive a one off benefit in 2018-19 of approximately £2.6m as a result of the pilot.

- 3.5 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.
- 3.6 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, over and above those items brought to members' attention in November 2017 as part of report PAS/FH/17/038.

Table 2: Budget proposals for 2018-21

	18/19 Pressure/(Saving) £000	19/20 Pressure/ (Saving) £000	20/21 Pressure/ (Saving) £000
Total Budget Gap - At PASC 29/11/17	22	39	48
Salary Changes:			
Current Development Control capacity to support increase in workloads due to area growing and encouragement of housing and investment in West Suffolk to meet local needs - funding assumed from base budget (previously funded from reserves)	47	47	47
Pay assumption changes			
Change from 1.0% to 2.0% + pay spine revision (in line with recent Employer offer (subject to agreement))	86	228	314
Shared Service Salaries Recharge	74	111	110
Other Budget assumption changes			
Tax Base Change - report XXX	(31)	(33)	(34)
Council Tax 17/18 Collection Surplus (2018/19 only)	(50)	0	0
Reduction in contributions to Suffolk CC for waste services (Household Waste/Recycling and Garden Waste Collection)	(128)	(158)	(158)
Additional Trade Waste Income	(41)	(79)	(90)
Additional Retail Rental income to reflect actual performance	47	47	10
Additional Industrial Unit Income - lowered vacancy rates reflecting current performance	(29)	(79)	(79)
Revised Abbeycroft Management Fee - reflected in report XXX	73	91	92
Reduction in external Tree Budget as a result of savings from bringing the service back in house	(41)	(41)	(41)
Reprofiling of Local Plan annual revenue contribution	(90)	(90)	0
Barley Homes income assumption profile change to reflect removal of Wamil Court from business plan	31	124	7
LLC1 Search Income lost due to transfer to HMLR mid 18/19 - reinstated due to delay in decision	(14)	(14)	(15)
Contribution to Invest to Save Reserve for ICT transformation project resources	132	0	0
Other smaller budget changes	(88)	(43)	(61)
Efficiency savings	0	(150)	(150)
	0	0	(0)

- 5.2 The Capital Programme underwent a comprehensive review for the 2017/18 budget setting process. This Programme has been reviewed and updated with known changes (see Table 3).

Table 3 - Capital Programme

	2017/18 millions	2018/19 millions	2019/20 millions	2020/21 millions	Total millions
Gross capital expenditure	£5.236	£41.490	£11.643	£1.379	£59.748
Funded by:					
Grants and contributions	£0.497	£5.425	£0.175	£0.175	£6.272
Earmarked revenue reserves	£3.676	£5.824	£0.305	£0.984	£10.789
Capital receipts reserve	£0.145	£1.176	£0.345	£0.220	£1.886
External borrowing	£0.918	£29.065	£10.818	£0.000	£40.801
Total	£5.236	£41.490	£11.643	£1.379	£59.748

- 5.3 The Reserve Movements as a result of the revenue and capital plans are as follows:

Table 4 – Reserve Movements

Forest Heath	2017/18 millions	2018/19 millions	2019/20 millions	2020/21 millions	2021/22 millions
Opening Balance	£11.828	£10.807	£7.065	£7.756	£7.918
Funded by:					
Contribution to Reserves	£4.243	£3.513	£2.386	£2.150	£2.150
Contribution from reserves	-£5.265	-£7.255	-£1.694	-£1.989	-£1.098
Closing Balance	£10.807	£7.065	£7.756	£7.918	£8.970
New Homes Bonus	£1.278	£0.718	£0.564	£0.428	£0.428

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
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