

# Performance and Audit Scrutiny Committee



*St Edmundsbury*  
BOROUGH COUNCIL

<b>Title of Report:</b>	<b>Delivering a Sustainable Medium Term Financial Strategy 2018-2021</b>	
<b>Report No:</b>	<b>PAS/SE/18/005</b>	
<b>Report to and dates:</b>	<b>Performance and Audit Scrutiny Committee</b>	31 January 2018
	<b>Cabinet</b>	6 February 2018
<b>Portfolio holder:</b>	Councillor Ian Houlder Portfolio Holder for Resources and Performance <b>Tel:</b> 01359 250912 <b>Email:</b> <a href="mailto:ian.houlder@stedsbc.gov.uk">ian.houlder@stedsbc.gov.uk</a>	
<b>Lead officer:</b>	Rachael Mann Assistant Director (Resources and Performance) <b>Tel:</b> 01638 719245 <b>Email:</b> <a href="mailto:rachael.mann@westsuffolk.gov.uk">rachael.mann@westsuffolk.gov.uk</a>	
<b>Purpose of report:</b>	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.	
<b>Recommendation:</b>	<p><b>It is <u>RECOMMENDED</u> that the Performance and Audit Scrutiny Committee:</b></p> <ol style="list-style-type: none"> <li>1) <b>Note</b> 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 2018/19 and sustainable budget in the medium term; and</li> <li>2) <b>Recommend</b> to Cabinet the <b>inclusion of the proposals</b>, as detailed in <b>Section 6</b> and <b>Table 2</b> at <b>Paragraph 6.1</b> of this report.</li> </ol>	

<b>Key Decision:</b> <i>(Check the appropriate box and delete all those that <b>do not</b> 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"/>	
<b>Consultation:</b>		<ul style="list-style-type: none"> <li>Leadership team (LT), Portfolio Holders and staff are consulted during this budget process</li> </ul>	
<b>Alternative option(s):</b>		<ul style="list-style-type: none"> <li>Other options could be proposed and considered by members. They would need to take into account core principles such as deliverability, affordability and risk.</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"/> As detailed in the body of this Report	
<i>Are there any <b>staffing</b> implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<i>Are there any <b>ICT</b> implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<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"/> 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 <b>equality</b> 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.	
<b>Risk/opportunity assessment:</b>		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
<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*
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.	Low	Constant monitoring of guidance issued and reflection in assumption	Low
<b>Ward(s) affected:</b>	All Wards		
<b>Background papers:</b> <i>(all background papers are to be published on the website and a link included)</i>	<a href="#">COU/SE/17/004</a> - Budget and Council Tax Setting 2017/18 <a href="#">CAB/SE/17/008</a> - West Suffolk Strategic Plan and Medium Term Financial Strategy 2016-2020 <a href="#">COU/SE/17/021 (item B7)</a> Draft West Suffolk strategic Framework <a href="#">PAS/SE/17/034</a> - Delivering a Sustainable Medium Term Financial Strategy 2018-2021		
<b>Documents attached:</b>	<b>Appendix A</b> – 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 (agreed by Council on 19 December 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 St Edmundsbury Borough 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 St Edmundsbury 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 2017-2021, approved at Full Council on 21 February 2017 (Report COU/SE/17/004), sets out the current and future financial pressures and challenges facing St Edmundsbury.
- 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 talks 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 St Edmundsbury, thus removing the majority of the growth we retain under the current 50% BRR scheme. This would remove a significant amount of income (£0.7m) 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 St Edmundsbury as reported in Feb 2017.
- 3.2 There has been a revision to the outlook for the Barley Homes 5 year delivery plan following the removal of Wamil 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. Overview and Scrutiny Committee have the Barley Homes Business Plan as a work programme item scheduled for the the March 2018 meetings.
- 3.3 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.
- 3.4 It is important to note that there are limitations on the degree to which St Edmundsbury 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 0% increase in council tax but this 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 approved MTFs which at February 2017 was 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 SEBC.
- 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 St Edmundsbury Borough 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. Garden Waste Subscriptions**

- 5.1 At the Council meeting on 19 December 2017, Councillor Nettleton gave notice under paragraph 9.1 of the Council Procedure Rules of the following motion:

*"That with effect from April 2018 new subscribers to the Brown Bin emptying service be charged at the following rates\*, depending on the month the subscription is approved:*

*April £40: May £37: June £34: July £31: August £28: September £25: October £22: November £19: December £16: January £13: February £10.*

*No new subscriptions accepted in March as officers busy organising renewals.*

*\*Subject to technical amendments"*

It was agreed that this matter be referred to Performance and Audit Scrutiny Committee for consideration.

- 5.2 The motion proposes a change to the current charging schedule for residents subscribing to the service from 1 April 2018, moving from a single annual charge of £40 to a tiered charging system whereby the amount payable reduces monthly.
- 5.3 Agreeing to implement this change now will involve a high level of risk. It is not possible to guarantee that the technological changes to the current application and payment system, including automatic crew notification, can be designed, implemented and tested prior to the launch of the 2018/19 service in February 2018.
- 5.4 Members will also recall the discussions that took place with PASC prior to the introduction of the garden waste collection service in April 2016. The service amendments were prompted by reductions in the funding arrangements that were expected to significantly increase the cost of the service.
- 5.5 West Suffolk councils agreed to the introduction of an annual garden waste subscription charge of £40 per bin to take effect from April 2016. The garden waste collection service is now discretionary and involves the collection of garden waste only. As part of this change, a 50:50 cost/benefit sharing approach between West Suffolk councils and Suffolk County Council (SCC) was agreed by Public Sector Leaders to ensure that no single organisation was in a worse financial position following the change. It was also agreed that this arrangement, and the service itself, would be reviewed after the first three years of operation.
- 5.6 During the first two years of operation, around 30,000 households have subscribed each year and the service is generally operating in line with the original assumptions and expectations. Preparations are ongoing for the commencement of the 2018/19 subscription year to ensure a seamless transition.
- 5.7 Officers recommend that these preparations continue in line with the previous two years. Once the main subscription period has passed, normally by around June, there will be an opportunity to work with the appropriate Member forum to review progress and discuss the options for Year 4 onwards. This will include the cost sharing mechanism with SCC, service administration and options for the charging regime. This will provide an opportunity to review the garden waste collection service in its entirety and the charging regime proposed by Councillor Nettleton.

## **6. Budget proposals for 2018-2021**

- 6.1 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 2018/19, over and above those items brought to members' attention in November 2017 as part of report PAS/SE/17/034.

**Table 2: Budget proposals for 2018-2021**

	<b>18/19 Pressure/( Saving) £000</b>	<b>19/20 Pressure/ (Saving) £000</b>	<b>20/21 Pressure/ (Saving) £000</b>
<b>Total Budget Gap - At PASC 29/11/17</b>	<b>96</b>	<b>186</b>	<b>199</b>
<b>Salary Changes:</b>			
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)	87	87	87
Housing Rough Sleeper Post - funding assumed from base budget from 2020/21	0	0	28
<b>Pay assumption changes</b>			
Change from 1.0% to 2.0% + pay spine revision (in line with recent Employer offer (subject to agreement))	239	570	771
Shared Service Salaries Recharge	(74)	(111)	(110)
<b>Other Budget assumption changes</b>			
Tax Base Change - report XXX	23	25	25
Council Tax 17/18 Collection Surplus (2018/19 only)	(8)	0	0
Reduction in contributions to Suffolk CC for waste services (Household Waste/Recycling and Garden Waste Collection)	(187)	(241)	(241)
Additional Trade Waste Income	(105)	(148)	(225)
Additional Retail Rental income to reflect actual performance	(43)	(43)	(43)
Additional Industrial Unit Income - lowered vacancy rates reflecting current performance	(95)	(95)	(95)
Additional Apex Booking Fee Income (net of £50k additional artist fees and running costs)	(20)	(70)	(70)
Barley Homes income assumption profile change to reflect removal of Wamil Court from business plan	31	125	7
LLC1 Search Income lost due to transfer to HMLR mid 18/19 - reinstated due to delay in decision	(25)	(25)	(25)
Reduction in income assumption on Leisure Properties due to be transferred to a Trust	53	53	53
Additional income (net) from Invest to Save project at Haverhill House	0	(8)	(40)
Removal of contributions to MTFS reserve	(25)	(124)	(115)
Other smaller budget changes	53	(31)	(56)
<b>Single Council</b>			
Cashable savings as per Business Case	0	(150)	(150)
	<b>0</b>	<b>0</b>	<b>0</b>

6.2 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
<b>Gross capital expenditure</b>	<b>£18.844</b>	<b>£40.009</b>	<b>£0.843</b>	<b>£2.271</b>	<b>£61.967</b>
<b>Funded by:</b>					
Grants and contributions	£3.627	£1.655	£0.375	£0.375	£6.032
Earmarked revenue reserves	£2.726	£3.832	£0.967	£1.596	£9.121
Capital receipts reserve	£7.141	£5.972	£1.543	£0.300	£14.956
External borrowing	£5.350	£28.550	-£2.042	£0.000	£31.858
<b>Total</b>	<b>£18.844</b>	<b>£40.009</b>	<b>£0.843</b>	<b>£2.271</b>	<b>£61.967</b>

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

**Table 4 – Revenue Earmarked Reserve Movements**

St Edmundsbury	2017/18 millions	2018/19 millions	2019/20 millions	2020/21 millions	2021/22 millions
<b>Opening Balance</b>	<b>£18.000</b>	<b>£18.684</b>	<b>£18.021</b>	<b>£18.020</b>	<b>£16.961</b>
<b>Funded by:</b>					
Contribution to Reserves	£6.339	£6.115	£4.303	£4.002	£4.002
Contribution from reserves	-£5.655	-£6.779	-£4.305	-£5.061	-£4.155
<b>Closing Balance</b>	<b>£18.684</b>	<b>£18.021</b>	<b>£18.020</b>	<b>£16.961</b>	<b>£16.809</b>

Strategic Priorities and MTFs reserve (not included in above)	£1.553	£1.272	£1.197	£0.962	£0.962
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## 7. Budget timetable

7.1 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 and 25 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.	6 February 2018
2018/19 Budget and Council Tax Setting - Full Council.	20 February 2018