West Suffolk Council

Medium Term Financial Strategy (MTFS) 2020-24

NOTE: THE SUMMARY OF OUR FINANCIAL POSITION SECTION WILL BE COMPLETED AS PART OF THE 2020-21 BUDGET SETTING PROCESS (CONCLUDED IN FEBRUARY 2020), ALONG WITH ALL REFERENCED APPENDICES AND TABLES.

CONTENTS

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FOREWORD FROM THE PORTFOLIO HOLDER OF THE COUNCIL.

TO BE ADDED

PURPOSE OF THIS DOCUMENT

The Medium Term Financial Strategy (MTFS) provides a high-level assessment of the financial resources required to deliver West Suffolk's strategic priorities and essential services over the next few years. It considers how the council can provide these resources within the anticipated financial context.

Like all local authorities, West Suffolk's MTFS is influenced by national government policy, funding and spending announcements. The government's spending plans continue to evolve, at the time of publication of the MTFS, highlights include:

- The main grant (revenue support grant - RSG) to local government has been continued into 2020-21. This is a one year extension of the 4-year settlement deal that was accepted by 97% of councils, including West Suffolk's, in return for publishing efficiency plans.
- Governments treatment of eliminating 'negative' RSG through foregone business rates will continue for one more year into 2020-21.
- The New Homes Bonus will be retained into 2020-21 but the baseline has yet to be confirmed (currently set at 0.4%).
- Consultation will continue in 2020 on changes to the local government finance system to pave the way for the implementation of 75% business rate retention by 2021-22. Including a review of local authorities' needs and resources (fairer funding review) to enable a new funding system to be devised.
- The next business rates revaluation would be occurring in 2021. This will be accompanied by a full reset of the growth baseline.
- The government allows local authorities to spend up to 100% of their fixed asset/capital receipts on the revenue costs of reform projects.
- The council tax referendum level (the level at which council tax can be increased) is currently set at 2% or £5, whichever is the higher amount. In addition, local authorities with responsibility for social care (e.g. Suffolk County Council) may levy a precept to spend exclusively on adult social care.
- Introduction of the National Living Wage, to reach 60% of average salaries by 2020.

The latest local government spending announcements can be found at the following link: https://www.gov.uk/government/policies/local-government-spending

NATIONAL ECONOMIC CONTEXT

The economy

TO BE ADDED

Government borrowing and spending

TO BE ADDED

Changes to local government financing

Over the last decade, a number of local government financing mechanisms have become embedded in the Councils' overall funding framework. For example:

- a share of business rates growth is now retained locally by the council, and by a Suffolk "pool";
- the councils set council tax discounts locally, rather than eligible residents receiving council tax benefit;
- the New Homes Bonus; and
- the funding of Disabled Facilities Grants from the Better Care Fund.

Local government is now funded from three main taxation/finance settlement sources; council tax, new homes bonus and a share of business rates income (revenue support grant will be phases out from April2021). Council tax income continues to be the main source of funding, in total value, for local authorities. Council Tax income represents around 11% of West Suffolk's annual income.

It is expected that each of these funding streams will continue in 2020-21 however beyond the one year spending round 2019, there is significant uncertainty in the basis and quantum of the business rates retention and new homes bonus schemes.

The reform of the business rates retention scheme, with the local share increasing from 50% to 75% is now due for 2021-22. It is assumed there will also be a full baseline reset in 2021-22 (as previously suggested by Government). For authorities who have business rate growth and are significantly above their current funding baseline, such as West Suffolk, this will have a significant impact, subject perhaps to any damping arrangements, on our existing funding levels through that business rates retention scheme.

The Fairer funding review, which looks at the overarching methodology that determines how much funding each authority receives each year is also scheduled for 2021-22, creating further uncertainty to the councils funding assessment from central government.

The changes to local government finance form part of the government's devolution agenda, by reducing local authorities' reliance on central government, and encouraging greater self-sufficiency. West Suffolk continues to work with other authorities in East Anglia to consider the longer term implications of these changes for the future shape of local government and economic growth in the region.

LOCAL CONTEXT

West Suffolk Council's financial position is based on our financial circumstances, local demand and opportunities. The 'summary of our financial positions' section of this document details our financial standing. The following section provides an overview of the local context in which the Council operates.

The local economy

1) Economic growth
Our geographical position means while we are very much part of the county of Suffolk, we are also part of the wider Cambridge economy and the A14 and A11 transport links tie us into the wider geography of East Anglia for key issues. We play a significant part in the Cambridge Housing Sub-Region as well as the New Anglia LEP and the Greater Cambridge, Greater Peterborough LEP. Councillors recognise the opportunities this creates and are committed to maximising them but there is also recognition that this proximity brings challenges as well, including high house prices and rental levels alongside demand for housing that is not being supplied within the Cambridge area.

2) Better housing
West Suffolk is facing increasing demands for housing both in the public and private sectors. There is a need to ensure housing is affordable whether to rent or buy, which is challenging in an area with historically low wages and pressures on house rental prices. We recognise the need not only for more homes but also a range of different types of housing suitable for the varying needs for our growing and ageing population as well as homes to suit local demand from first time buyers, those that are retiring, and sites for Gypsies and Travellers.

3) Families and communities
When measured at the local authority level, the population of West Suffolk appear to be relatively affluent, and experiencing lower levels of deprivation and social upheaval than many other parts of the country. However, this overall picture masks pockets of real deprivation in certain wards and a wider lack of social mobility.

Increase in service demands

West Suffolk serves a population of 177,400 [to be updated] across a predominantly rural area in the heart of East Anglia.

The 2011 census showed percentage of over 65s in West Suffolk had risen to 17.97% [to be updated] ; this is now above the national average and projected to increase. Many older people bring a wealth of experience and skills which they are willing to share voluntarily throughout their retirement, and these opportunities need to be developed. Some older people need extensive support to continue living independent lives and this inevitably creates pressures on all public sector services.

West Suffolk has also experienced a period of sustained increase in demand for some of the key services it provides to the most vulnerable members of the community, particularly within housing and our homelessness service.

West Suffolk faces challenges around closing the gaps in educational attainment across the area. While some schools are performing well, some still face challenges in raising educational attainment.

Education is just one element of the complex social issues which have significant rural deprivation impacts on how we fund and deliver council services. As well as individual families, there are a number of neighbourhoods in West Suffolk where communities are experiencing real difficulties on a day-to-day basis. Many of the issues facing our residents today are not picked up in statistical analyses, such as loneliness and isolation, a lack of practical support, or mental health problems.

At the same time, our residents expect the public sector to match, or exceed, service levels delivered by the private sector. Council tax is the only visible tax – others are hidden, for example, in VAT on purchases or through pay as you earn (PAYE) deductions from salaries. People expect value for their council tax and prompt, professional and seamless services. The new customer service arrangements are transforming our delivery but need resourcing for support systems, such as an efficient, easily accessible and transactional website where people can access services any time of day.

Challenges and opportunities within the changing local government financing regime

The Government's new arrangements for funding local government present local authorities with a higher degree of uncertainty and risk than the previous arrangements pre April 2013. On the other hand, local authorities are now more able to control the level of funding they receive, due to the links to new commercial (through business rates retention scheme) or housing development (through the new homes bonus scheme) that they encourage and incentivise in their local areas. This presents West Suffolk with both challenges and opportunities as these arrangements continue to become embedded part of the Councils finances.

Funding reductions

West Suffolk has already faced significant cuts in Government funding with revenue support grant (£4.3m in 2014-15) being phased out completely by 2021.

A sustainable future for West Suffolk in the face of funding cuts and spending pressures is dependent upon continuing to change the way we think about funding local government and how we manage the system.

RESPONDING TO THE FINANCIAL CHALLENGES AND OPPORTUNITIES

West Suffolk Council's response to the financial challenges and opportunities are based on six key themes. These themes have been developed for the new Council and they represent an appropriate response to the ongoing financial situation:

1. Aligning resources to West Suffolk's strategic framework and essential services;
2. Sharing services and transformation of service delivery;
3. Behaving more commercially;
4. Considering new funding models;
5. Encouraging the use of digital forms for customer access; and
6. Taking advantage of new forms of local government finance.

1. Aligning resources to the West Suffolk strategic framework and essential services

Continuing in this MTFS, is the approach of allocating resources in line with the priorities set out in the [emerging] West Suffolk Strategic framework 2020-2024, which is available here [link] and essential services. This theme helps to identify areas of West Suffolk's work which could either be scaled back or where (either individually or together) further opportunities for the generation of income could be pursued. The budget-setting process focuses on these non-priority areas, and challenges whether West Suffolk should continue with the activities either at all, or in their current form, in order to ensure they provided value for money to council taxpayers.

The links to the changing role of local government from direct provision and reaction to enabling and preventing, as part our Families and Communities Strategy for West Suffolk, will also start to inform the allocation of the individual council's available resources.

The strategy builds from two key assumptions:

- Changing needs – challenging definitions of poverty and deprivation and also the presumption of public services' role as meeting needs rather than developing and working with the assets within communities.
- Preventing and reducing demand – there are fewer resources and a history of rising demands on public services; we cannot resolve this challenge by trying to do the same things with less money.

2. Sharing services and transformation of service delivery

The previous shared service agenda had already delivered in excess of £4 million per year in savings for West Suffolk which is in addition to other local savings.

The creation of a single West Suffolk Council adds a further £850k per year savings and efficiencies to this success.

West Suffolk shares a number of services with neighbouring councils including HR and ICT support to the Anglia Revenue Partnership and legal support services with Babergh and Mid Suffolk Councils and will continue to explore further opportunity for sharing services where appropriate.

A number of Business Process Re-engineering reviews were carried out during 2019-20 and the recommendations from these will be implemented in the following year. Business Process Reengineering reviews will continue to be carried out in 2020-21 to ensure further streamlining and efficiencies can be achieved. Transformation piece – to be added

The Business Partner model will continue to be operated through the MTFS period, whereby corporate or support services provide specialist support and expertise to all service areas and project teams.

West Suffolk is involved in a programme of Suffolk-wide working, supported by funding from central Government, through the Transformation Challenge Award. This work aims to integrate work by public sector partners across the Suffolk "system" so as to improve the lives of Suffolk residents and achieve savings for council tax payers. As well as working with those within the public sector "system", we are also continuing to work in partnership with local communities, enabling them to support themselves.

The Councils are also working with partners to maximise the opportunities offered by the Government's devolution agenda for example by working in partnership with the Greater Cambridge Greater Peterborough Local Enterprise Partnership and considering where responsibilities best sit within the Suffolk "system".

3. **Behaving more commercially**

Over the last few years more commercial behaviours have been embedded in key parts of the councils' work, with implications for the councils' finances. On the one hand, a number of savings have been achieved as a result of more business-like behaviours, and on the other hand, significant additional income has been generated in some service areas. Behaving more commercially will therefore continue to be a key theme running through the work needed to deliver our outcomes and a sustainable MTFS.

4. Considering new funding models

The West Suffolk council will continue its work on being an "investing authority" over the period 2020-24. The West Suffolk councils have had a long tradition of investing in their communities in support of the delivery of their strategic priorities, in particular to aid economic growth across West Suffolk.

Depleting capital and revenue reserves and increased pressure on external funding mean that the Council will need to consider investing away from the traditional funding models such as using their own reserves. Instead focus is now on the optimum use of borrowing and the various options for accessing that capital that are available.

The financing of the chosen funding model itself is a challenge, with limited reserve balances available in the short to medium term. In order to generate new cash into the authorities and to enable our continued ambition of being an 'investing authority' means that borrowing or appropriate financing transactions, in order to create new cash, is something that West Suffolk will have to embrace in order to deliver on it's ambitious capital and investment programme.

There are ample precedents which demonstrate that prudential borrowing has become a valuable tool for local government to achieve its strategic objectives. The use of unsupported borrowing (no security to a particular council asset) is both flexible and relatively straightforward.

With this in mind and as borrowing is required over the medium to long term for the authority, it is considered prudent to assess each investment opportunity/project on the basis of borrowing and its cost, assessing each project on an equal playing field regardless of their timings within the MTFS or the funding model used.

There are two annual costs associated with borrowing:

- servicing the debt – the interest payable on the loan; and
- repayment of the loan/capital – effectively through a minimum revenue provision (MRP) into the revenue account.

At the time of writing this plan, these costs would be in the region of 3.26% interest (based on a Public Works Loan Board –PWLB, rate over 40 years) and 2.5% MRP, and therefore in order to assess each project on a level playing field these costs will be included in each business case. Naturally a change in interest rate or MRP rate would change the rates used in each potential project.

The choice of funding model for each investment opportunity/project will be based on its individual merits, financial return/costs including the overall risk exposure, considered as part of each business case. Any decision to invest or borrow would be subject to full scrutiny by councillors, through the usual democratic process.

5. **Encouraging the use of digital forms for customer access**

The ongoing implementation of our Customer Access Strategy is also an important part of our next phase of development and is inextricably linked to the need for commercial thinking and wider transformation programme.

The customer support team continues to embed the benefits of both integrated first-point-of-contact support and promoting channel shift.

There will always be some customers who cannot or do not want to access our services online – whether because they have limited access to the internet, or because they are unfamiliar with this technology. These customers will always be able to reach us in the traditional way. Our goal, though, is to encourage those people who can do their business with us online to do so.

In addition to making customer contact easier to handle, this solution can automate many of the duplicated tasks council employees normally perform when handling customer contact, thereby reducing call times and improving the quality of service.

6. **Taking advantage of new forms of local government finance (e.g. business rate retention)**

During the period covered by the MTFS, the new forms of local government finance will continue, in whatever disguise it lands from April 2021, to be the key sources of income for councils. West Suffolk will therefore take the opportunity, through its service delivery and other MTFS themes mainly ‘behaving more commercially’ and being an ‘investing authority’, to grow our own funding through a strong, and growing, local economy alongside the skills, infrastructure and housing to sustain it.

OUR APPROACH TO ENGAGEMENT AND CONSULTATION

The councils regularly engage with residents, businesses, community groups and interest groups through a range of consultation mechanisms. Sometimes these are formal exercises, for example, public consultations or public meetings, and sometimes they are more informal, for example, focus groups, community engagement within localities and stakeholder liaison on a topic by topic basis. Our overall aim is to carry out timely and proportionate consultation that is available in an accessible format for everyone who wants to give us their views on a particular matter. Details of current and closed consultations by the councils are available here:
http://www.westsuffolk.gov.uk/council/consultations/

SUMMARY OF OUR FINANCIAL POSITION

REVENUE & CAPITAL STRATEGY AND BUDGET SUMMARY – TO BE ADDED

GLOSSARY OF TERMS

Actuarial valuation
An independent report of the financial position of the Pension Fund that is carried out by an actuary every three years. Reviews the Pension Fund assets and liabilities as at the date of the valuation and the results of which, including recommended employer's contribution rates, the Actuary reports to the Council.

Baseline funding level
The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top-ups will be calculated.

Budget Requirement
The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG, New Homes Bonus and Business Rates).

Business rate retention scheme
The Business Rates Retention Scheme introduced by Government from April 2013 is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth that is generated in business rates revenue in their areas, as opposed to the previous system where all business rates revenues are held centrally.

Under the scheme local authorities were also allowed to form pools for the purposes of business rates retention. West Suffolk along with the other Suffolk Authorities and the County Council have been designated as a Suffolk pool from April 2013.

In 2018 the Government announced the new 100% business rate pilot schemes, the Suffolk authorities were successful in being one of those pilots during 2018-19.

In September 2019 the Government announced that the planned 75% business rates retention scheme and re-baselining as part of the fairer funding review will be postponed until April 2021.

Capital expenditure
Spending on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. Can also be indirect expenditure in the form of grants to other persons or bodies.

Capital Programme

Councils plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
The proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

CIPFA
Chartered Institute of Public Finance and Accountancy. One of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection fund
A statutory account maintained by the council recording the amounts collected from council tax and Business Rates and from which it pays the precept to the major precepting authorities.

Collection Fund surplus (or deficit)
If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authorities - Suffolk County Council and Suffolk Police Authority.

Contingency
Money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base
The Council Tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works what this equates to in terms of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992.

Fairer Funding Review
Central government funding for local authorities is currently based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 % business rates retention scheme in 2013-14.

The government is undertaking a 'Fair Funding Review'. This is aimed at designing a new system for allocating funding between councils, the review will:

- set new baseline funding allocations for local authorities,

- deliver an up-to-date assessment of the relative needs of local authorities,
- examine the relative resources of local authorities,
- focus initially on the services currently funded through the local government finance settlement, and
- be developed through close collaboration with local government to seek views on the right approach

The Fairer funding review is expected to come into force from April 2021.

General Fund Balance
The main unallocated reserve of the Council, set aside to meet any unforeseen pressures.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the overall economy.

Gross expenditure
The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

Individual authority business rates baseline
Derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Local share of Business rates
This is the percentage share of locally collected business rates that will be retained by local government. This is currently set at 50%. At the outset, the local share of the estimated business rates aggregate is divided between billing authorities on the basis of their proportionate shares.

Net Expenditure
Gross expenditure less services income, but before deduction of government grant.

National Non Domestic Rates (NNDR)
Also known as 'business rates', Non-Domestic Rates are collected by billing authorities such as West Suffolk Council and, up until 31 March 2013, paid into a central national pool, then redistributed to authorities according to resident population. From 2013-14 local authorities will retain 50% of the value of any increase in business rates. The aim is to provide an incentive to help businesses set up and grow.

New Homes Bonus

Under this scheme councils receive a new homes bonus (NHB) per property for the first four years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an unringfenced grant.

Precept
The precepting authority's council tax, which billing authorities collects on behalf of the major preceptor

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure councils' capital investment plans are affordable, prudent and sustainable.

Referendum
Power under which the Government may limit the level of council tax increase year on year. Any major precepting authority in England wanting to raise council tax by more than 2% or £5 which ever if the higher amount, must consult the public in a referendum. Councils losing a referendum would have to revert to a lower increase in bills.

Revenue Expenditure
The day-to-day running expenses on services provided by Council.

Revenue Support Grant (RSG)
All authorities receive Revenue Support Grant from central government.

Risk Management
We define risk as being uncertainty of outcome, whether relating to 'positive' opportunities or 'negative' threats / hazards. Our new, positive approach to risk is based on context, proportionality, judgement and evidence-based decision making that considers risk on a case by case basis and is documented at all stages. We will be joined-up in our decisions, and will draw on one another's skills and experience to take responsibility for sound and reasonable decisions about the use of public funds, avoiding a blame culture when things go wrong.
http://westsuffolkintranet/howto/risk-management.cfm

Section 151 officer (or Chief Financial Officer)
Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, for West Suffolk councils case this is held by the post holder of Assistant Director (Resources and Performance).

Specific Grants
Funding through a specific grant is provided for a specific purpose and cannot be spent on anything else, for example: Housing Benefits.

Spending Review
The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department.

Suffolk Business Rate Pool
All district/borough councils in Suffolk, along with Suffolk County Council have created the Suffolk Business Rates Pool. The pooling of business rates across Suffolk will:

- through its governance arrangement ensure no individual council is financially any worse off for being in the Suffolk pool;
- maximise the proportion of business rates that are retained in Suffolk;
- benefit the wider communities within the county led by the Suffolk Leaders' collective vision for a 'Better Suffolk';
- provide incentives for councils to work together to improve outcomes for Suffolk.

Tariffs and top-ups
Calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups are fixed at the start of the scheme and index linked to RPI in future years. West Suffolk is a 'tariff' authority.

Treasury Management

Managing the Council's cash flows, borrowing and investments to support the Council's finances. Details are set out in the Treasury Management Strategy which will be considered and approved by Cabinet and Council in February each year.

West Suffolk Council

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