

## MEDIUM TERM FINANCIAL PLAN 2017 ONWARDS AND THE COUNCIL'S BUSINESS MODEL

### 1. Purpose of Report

- 1.1 To consider the development of the Medium Term Financial Plan for 2017 onwards and to consider the factors that will influence its delivery and that of the annual budget strategy 2018/19.
- 1.2 To consider the development of the Council's Business model, to enable us to respond to changes in Government funding and ensure that the Council's strategic objectives are aligned to resources available.

### 2. Background and National Context

- 2.1 Towards the end of the calendar year, the Chancellor of the Exchequer will present the Autumn statement. No further details are available at this stage on what he is likely to announce. Considering that the Queen's Speech, which followed the election in June, failed to mention local government finance reform in any shape or form, some clarity on the future of Local Government finance within this statement would be most welcome.
- 2.2 The Government has announced that the Fair Funding Review will continue. Significant changes in the distribution of funding are inevitable, although they are likely to be heavily damped. The funding formulae have not been fundamentally reviewed since 2005 (there were some changes in 2013-14). So, even updating the formulae for changes in demography and more-recent spending patterns will generate huge changes. These are the most important factors in the development of a new funding formulae:
  - **Change in demography.** The last population updates were in the 2013-14 settlement (and are based on the mid-2011 population). Changes in population have been significant for some authorities, particularly for over-65s and adult social care clients groups.
  - **Increased focus on adult social care (and children's services).** Adult and children's social care is now a much larger proportion of total local government spending than it was in 2013-14. The combined share of these two services has increased from 37% to 41% of Total Service Expenditure.
  - **Effects of past reviews not implemented.** There are still large damping allocations within the existing authority funding allocations – which effectively means that changes in previous settlements have not been fully implemented. A decision will have to be made by ministers about the extent to which these historic damping allocations are preserved.
  - **Desire to move towards more-simple funding.** This has consistently been called for from both within local government and, at times, by ministers. It is difficult to achieve, or at least results in distribution patterns that are not always acceptable.
  - **Political choices about funding.** Ultimately political choices will determine allocations, irrespective of the other technical or demographic concerns. Changes in distribution will reflect ministers' preferences, although even here there will be limits to the changes in distribution that can be made.

2.3 The 2018 pay claim as summarised by the Local Government Association includes:

- 5% increase on all pay points
- deletion of all pay points below £8.50 / hour
- an increase in pay bill of £559m

Members will be kept up to date as the pay claim develops, through the Employee Engagement Panel.

2.4 Analysis from the Institute of Fiscal Studies (IFS) shows that seven years of austerity has only managed to bring the public finances back to where they were in 2007/08, a year before the severe recession in 2008/09. The budget deficit has shrunk largely because of a reduction in spending, and (to a lesser extent) the increase in taxation. In fact, *“the budget is still in deficit by 2 to 3 per cent of GDP – as it was on the eve of the crisis – and net debt is more than double its pre-crisis share of GDP and not yet falling. As a result, the public finances are much more sensitive to interest rate and inflation surprises than they were.”* In its commentary on the Government’s fiscal policy, the IFS said: *“the Government says it remains committed to balancing the budget by 2025. Our March forecast showed it on course to reduce the deficit to 0.7 per cent of GDP by 2021-22, but predicated on plans for a further significant cut in real public services spending per person.”*

### **3. Funding for Local Government**

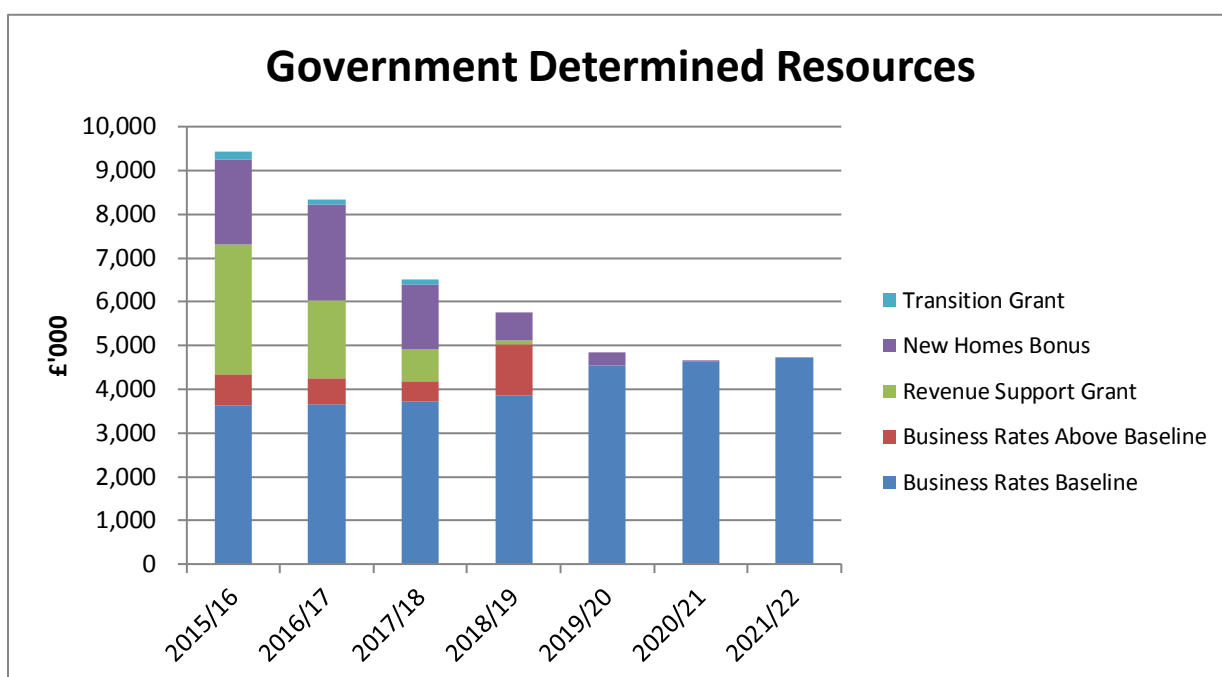
3.1 Critically for local government there is an additional variable, which is the share of public spending that is allocated to the sector. It is well known that the sector has absorbed a very large share of the cuts in spending since 2010. The FT reported prominently that funding to local government has fallen by 77% since 2010.

3.2 There are some indications that this might change and that local government might get a better deal. There is a noted trend amongst political commentators that cuts in local government funding have had unacceptable effects on some public services (social care, Grenfell Tower). *“The decision to load so many cuts on to local government was politically— not economically— driven. It has contributed to the social-care crisis and degraded some of the services most relied on by voters.”* Worries over the potential failure of social care and its direct impact on the NHS as well as those needing social care help are clearly of very great concern to ministers.

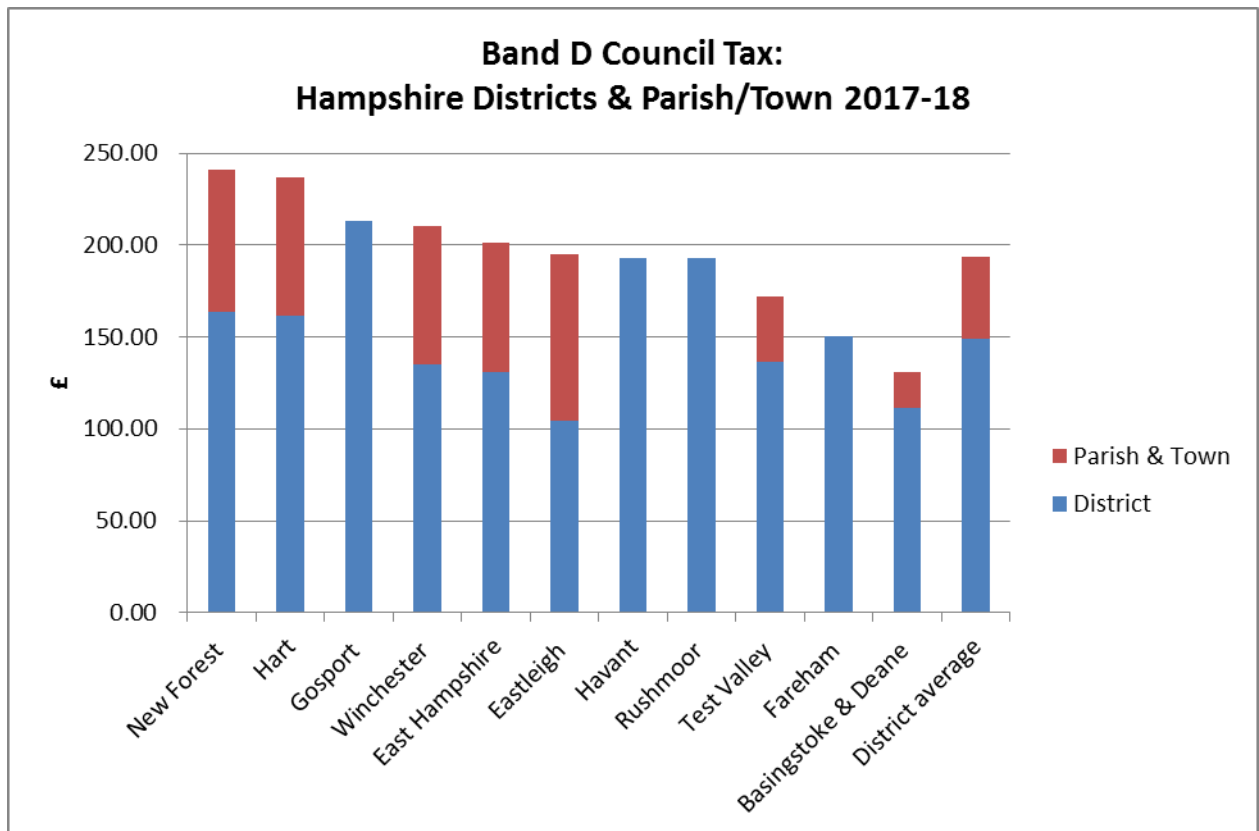
### **4. Funding Assumptions over the Medium Term**

4.1 The anticipated reduction in Government Determined Funding and notable change in the makeup of funding over the Medium Term period (to 2022) amounts to £1.776m (27% reduction from 2017/18 / 50% reduction from 2015/16):

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Business Rates Baseline	3,628	3,658	3,733	3,853	4,553	4,644	4,737
Business Rates Above Baseline	722	600	456	1,175	0	0	0
Revenue Support Grant	2,964	1,765	723	92	0	0	0
New Homes Bonus	1,935	2,204	1,490	633	288	14	0
Transition Grant	195	111	111	0	0	0	0
<b>Total Government Determined Resources</b>	<b>9,444</b>	<b>8,338</b>	<b>6,513</b>	<b>5,753</b>	<b>4,841</b>	<b>4,658</b>	<b>4,737</b>
Cumulative Reduction from 2017/18				-760	-1,672	-1,855	-1,776



- 4.2 There is still a level of uncertainty around these funding assumptions in light of the national context, fair funding review and uncertainty around business rate retention.
- 4.3 If Council tax increases over the Medium Term period are assumed at £5 per band D property per annum, this generates additional revenue almost equivalent to the reduction in government determined resources. This aligns to the Government's ethos of 'local taxes paying for local services', but undoubtedly, £5 annual increases over a sustained period will have an impact on New Forest residents. The following graph confirms the current District and Parish/Town Council precepts across Hampshire;



## 5. Budget Assumptions over the Medium Term

5.1 Increases in costs due to Pay & Price increases over the period to 2022 are estimated to amount to £2.905m. The assumptions include:

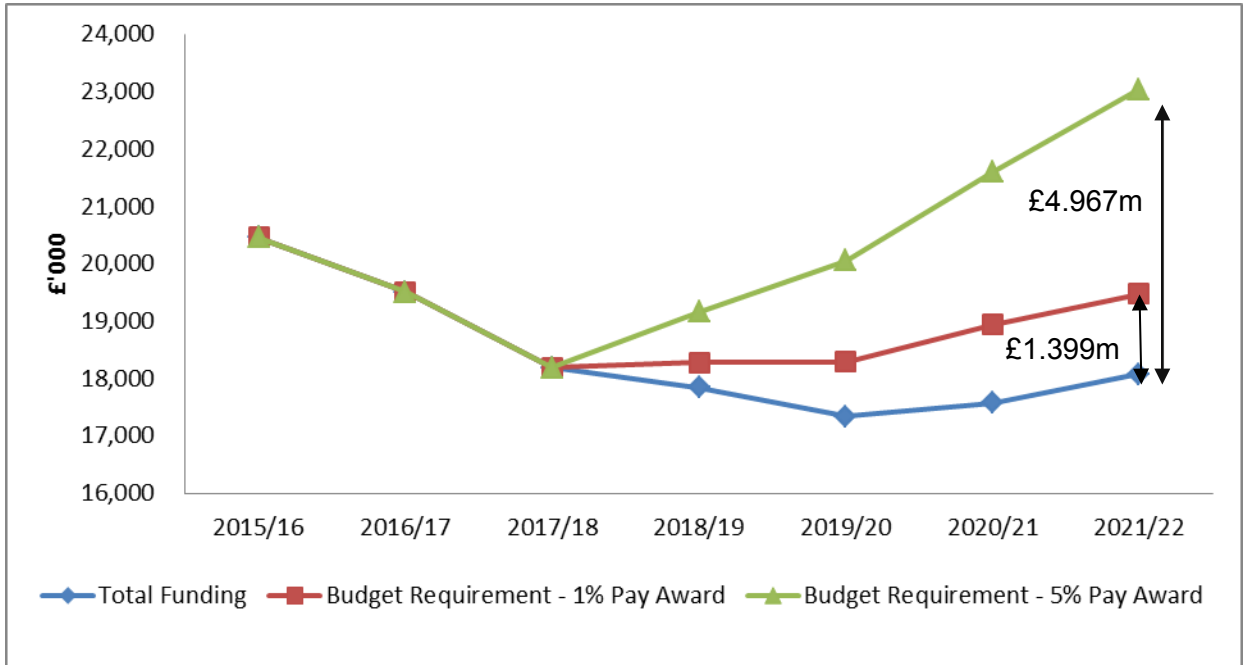
- 1% Pay award for all employees (1% equivalent to £220k)
- Contractual increments
- Pension increase cost (1% PA to 2020/21)
- Implementation of £8.00 minimum pay point
- Fuel and energy cost increases

5.2 The Budget Stabilisation Strategy issued each of the Council's Service Managers with a 3 year savings target equivalent to their proportion of the increase in costs over the period 2017/18 – 2019/20. Other savings and improved income are also expected to materialise over the period, resulting in total forecast savings of £1.795m. The assumptions making up this total include:

- Budget Stabilisation Strategy (Year 1 saved £1.579m, years 2 and 3; £710k)
- Delivery Plan Reviews (£200k)
- A reduction in Asset Maintenance and Equipment Replacement Resources (£380k)
- Improvement in Interest Earnings (£200k)
- Ongoing Savings from Previously approved reviews / projects (£305k)

5.3 New Budget Requirements for 2018/19 total £175k and include additional resource requirements to fulfil strategy implementation and a reduction in Land Searches income.

5.4 The summary position, taking into account all funding, Council Tax and budget assumptions as highlighted in this report, result in a £441k deficit for 2018/19, a cumulative deficit for 2019/20 of £948k, increasing to a cumulative £1.399m deficit in 2021/22. This position changes quite significantly depending on the pay award assumption used:



Cumulative Deficit based on:	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
1% Pay Award	-441	-948	-1,357	-1,399
2% Pay Award	-661	-1,390	-2,023	-2,291
3% Pay Award	-881	-1,832	-2,689	-3,183
4% Pay Award	-1,101	-2,274	-3,355	-4,075
5% Pay Award	-1,321	-2,716	-4,021	-4,967

5.5 The anticipated financial position (based on 1% pay award) as outlined above in sections 4 and 5 is summarised as **Appendix 1**.

## 6. Options for Delivering Financial Savings – The Council’s Business Model

6.1 The direction of travel for local government funding is one of potential greater risk, but at the same time greater opportunity. Funding will be based more on the strength of the local economy and so the Council has a vital role to play in protecting and growing the businesses that operate out of the District. The July MTFP set 5 key action points, to instigate the development of a new business model and ensure the Council is in a strong position to deal with the scale of the financial challenge over the Medium Term.

6.2 The developing business model, as outlined in more detail below, puts a greater focus on the services we provide being aligned to the Corporate Plan, a wider consideration on the best operational delivery model, maximisation of income and a move towards more efficient methods of customer interaction.

## **1. ALIGNING RESOURCES TO THE COUNCIL'S CORPORATE PLAN AND ESSENTIAL SERVICES**

The Council's vision for 2016-2020 was set out in the Corporate Plan, adopted by the Council in February 2016.

The Senior Management Review and Budget Stabilisation Strategy have been successful in streamlining the authority and cutting out wastage in the back office and in service delivery.

The Council's budget at present includes a mix of services that can be best described as statutory, essential, and discretionary. An alignment of the Council's budget to the Corporate Plan would no doubt result in a smaller scope of operation at a lower cost. Ultimately, the Council cannot expect to continue to deliver the same services, the same way, for even less money.

A detailed zero-based budget has not been conducted at NFDC for over 10 years, so an exercise such as this will ensure that budgets are only held and assigned to areas where they are needed.

Indicative minimum financial outcome; £500k

## **2. INCREASED PARTNERING AND COLLABORATION WITH OTHERS TO TRANSFORM SERVICE DELIVERY**

There is now a need for more radical transformation of how we operate and what we do (or don't do) across the public sector.

New Forest has always had a very traditional approach to in-house service delivery, resulting in a large organisation, with senior management spread very thinly across such a vast array of services.

Sharing services has to shift the way of thinking towards working differently with a number of partners across a range of sectors.

Indicative minimum financial outcome; £500k

## **3. MORE BUSINESS LIKE APPROACH, WITH TARGETED ADDITIONAL INCOME**

The need for thinking more like a business and acting more commercially has a significant part to play in delivering a sustainable Medium Term Plan.

The Commercial Property Investment Strategy approved in February 2017 demonstrates the Council's willingness to move forward. This strategy targeted income of £650k but good quality acquisitions aren't made overnight. Officers are currently working with a Task & Finish Group evaluating the possible benefits of setting up a Residential Housing Company, which will enable NFDC to act as a landlord and generate an important financial return on the investment.

Through the Treasury Management function, the Council has invested in further high yield investments by increasing its investments in the pooled property fund asset class, and by investing in pooled multi-asset funds.

Indicative minimum financial outcome; £650k

#### **4. AIMING TO MAXIMISE INCOME FROM LOCAL GOVERNMENT FINANCE REFORM**

There are a lot of unknowns with regards to the future of the local government finance at this moment in time, but when clarity is provided, there may be scope for the Council to improve its income by actively targeting our efforts in the right areas, i.e. in Business Rate growth, or in the delivery of new homes within the District.

The Local Plan and Strategy for Business will be essential in driving this area.

Indicative financial outcome; £Nil

#### **5. ENCOURAGING SMARTER WORKING AND TRANSFORMING OUR APPROACH TO SERVICE DELIVERY**

The Council needs to commit to the delivery of more efficient public access arrangements to its services. We need to ensure that our residents and service users become self-service orientated, and that our ICT and corporate message is on track with this direction of travel.

It takes a significant amount of collaborative work with partners to enable communities to do more for themselves, generating less demand on public services.

With an ageing population, and broadband connectivity issues within the District, there will always be some customers who require face-to-face or verbal interaction, so we need to ensure that these channels of more traditional communication also remain available. However, rather than face-to-face and verbal interaction being the norm, we will try to shift towards a self-service ethos, with these traditional approaches taking a back seat.

Indicative financial outcome; £Nil

- 6.3 To move towards the business model, specifically with action points 2 and 5 in mind, the Council is going to need to focus on the services that naturally lend their operation to alternative delivery models, and subsequently engage with specialists to provide independent evaluation expertise, reporting directly to EMT. A review of resources, predominately in the delivery of the ICT strategy may also identify necessary additional budget requirements. A provisional sum of up to £250k may be required, with this budgeted sum requiring Council approval, ahead of the traditional budget setting timeframe.

#### **7. Draft Resource Plans**

- 7.1 Each Portfolio Holder has set out a draft Resource Plan which identifies the aims, performance levels and challenges which are likely to be faced in the future. These are attached as **Appendices 2-7**.
- 7.2 The Budget Task & Finish Group will review these plans and feedback their comments and observations to Cabinet.

## 8. Asset Maintenance and Replacement

- 8.1 The 2017/18 budget for Asset Maintenance and Replacement includes £2.38m within the revenue funded budgets, and a contribution of £836k from reserves (£749k GF and £87k HRA). The proposed make-up of the 2018/19 budget includes £2.3m for the Asset Maintenance and Replacement Programme from revenue, and £750k from reserves, in support of the year 2 'ICT Protect and Maintain Service Delivery' programme, established as part of the 2017/18 budget setting (more on this in 8.3).

	2018/19 £'000
Offices, Depots & Outlying Buildings (inc. Public Toilets)	450
Health & Leisure	500
ICT	200
Vehicles & Plant	1,050
Non-Core Project Fund (for services to bid against)	200
Proportion allocated to HRA	-100
<b>TOTAL</b>	<b>2,300</b>

- 8.2 Officers are currently putting together a programme within the parameters as set out above, to be reviewed by the Executive Management Team and the Corporate Overview and Scrutiny Panel. A summary of the programme will be included in the next MTFP, with the intention of gaining approval for works to start on specifications and tendering. This will improve the likelihood of the programme being delivered in the correct financial year enabling the Council to plan its funding requirements and delivery programme more accurately.
- 8.3 The 2018/19 financial year will be year 2 of the ICT strategy and 'Protect and Maintain Frontline Service Delivery' budgeted programme. The 2017/18 budget setting process identified the need to spend a significant sum on the Council's ICT suite, including upgrades of key systems, updating of hosting arrangements and improvements in connectivity and remote working.

## 9. Crime and Disorder / Equality and Diversity / Environmental Implications

- 9.1 There are no direct implications as a result of this report.

## 10. Corporate Overview and Scrutiny Panel Comments

- 10.1 The Panel made a number of points concerning the current financial position and future outlook:
- The Panel emphasised that the budget shortfall could be met not only from savings, but also by focussing on generating extra income.
  - The Panel underlined the importance of capital investment to improve revenue income. An example was given where Hampshire County Council had invested in automatic number plate recognition technology at some HCC car parks, which would improve parking income.



- Examples were given where another authority had generated income from renting out surplus office space following staff reductions there.
- Some members urged caution when considering outsourcing services, as experience in some councils had shown that external providers did not always bring the financial and service benefits envisaged.

## **11. Portfolio Holder Comments**

11.1 This report shows the difficulties of monitoring services whilst balancing budgets and that there is no single action to address these challenges.

## **12. Recommended**

Cabinet are asked to recommend to Council that the actions and development of plans for options to support the Medium Term Financial Plan, as set out in the report, be supported, including a budgeted sum of up to £250k to be made available to drive forward the operational business model, designed to achieve the required savings.

### **For Further Information Please Contact:**

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### **Background Papers:**

July MTFP

## APPENDIX 1

### MEDIUM TERM FINANCIAL PLAN 2017-2022

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000's	£'000's	£'000's	£'000's	£'000's
<b>FUNDING</b>					
Business Rates Baseline	3,733	3,853	4,553	4,644	4,737
Business Rates Above Baseline	456	1,175	0	0	0
Revenue Support Grant	723	92			
New Homes Bonus	1,490	633	288	14	
Transition Grant	111				
<b>Total Government Determined Resources</b>	<b>6,513</b>	<b>5,753</b>	<b>4,841</b>	<b>4,658</b>	<b>4,737</b>
<b>Council Tax</b>					
Base from Previous Year		11,675	11,732	11,790	11,848
Base Line Adjustment		57	58	58	58
<b>Total Council Tax</b>	<b>11,675</b>	<b>11,732</b>	<b>11,790</b>	<b>11,848</b>	<b>11,906</b>
<b>TOTAL FUNDING</b>	<b>18,188</b>	<b>17,485</b>	<b>16,631</b>	<b>16,506</b>	<b>16,643</b>
<b>Cumulative Reduction</b>		703	1,557	1,682	842
<b>%age reduction</b>		4%	9%	9%	5%
<b>Pay &amp; Price Increases</b>					
Pay Award (1%)		220	222	224	226
Increments		160	162	164	166
Pension Contributions		260	260	210	50
Pay & Reward Review - £8 min		181			
Prices (Utilities, Fuel & Maint.)		100	100	100	100
		921	744	698	542
<b>Ongoing Savings Analysis</b>					
Budget Stabilisation Strategy		-480	-230		
Delivery Plan Reviews		-100	-100		
Asset / Equipment Resources		-80	-300		
Interest Earnings		-150	-50		
Tourism Review		-18	-25	-25	
Income from Development projects		-27	-30	-30	
Development Control Income		-150			
		-1,005	-735	-55	0
<b>New Budget Requirements</b>					
Strategy Implementation Resources		100			
Land Searches Income		75			
		175	0	0	0
<b>TOTAL BUDGET REQUIREMENT</b>		<b>18,279</b>	<b>18,288</b>	<b>18,931</b>	<b>19,473</b>
<b>Total Funding Available (as above)</b>		<b>17,485</b>	<b>16,631</b>	<b>16,506</b>	<b>16,643</b>
<b>Estimated Cumulative Surplus / Shortfall (-)</b>		<b>-794</b>	<b>-1,657</b>	<b>-2,425</b>	<b>-2,830</b>
<b>£5 PA Council Increase</b>		<b>353</b>	<b>709</b>	<b>1,068</b>	<b>1,431</b>
<b>Estimated Cumulative Surplus / Shortfall (-)</b>		<b>-441</b>	<b>-948</b>	<b>-1,357</b>	<b>-1,399</b>
<b>Reserves Supporting the MTFP</b>					
General Fund Balance		3,000	3,000	3,000	3,000