

# Financial Sustainability Plan

2024/25

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## Purpose

This document summarises the Council's Financial Sustainability Plan. The purpose of this Plan is to provide a process and course of action for any event or series of events that has a serious detrimental impact on the Council's short- or long-term financial viability.

The Financial Sustainability Plan is designed to manage **unanticipated** detrimental **financial** impacts on the Council's budget only.

There are separate Business Continuity Plans to deal with other unexpected non-financial events that may impact adversely on the day-to-day operation of business.

The Financial Sustainability Plan is **not designed** to manage **day to day budget variances**. These are monitored and controlled via routine financial procedures.

## Financial Sustainability Plan Approach

The Financial Sustainability Plan has been designed to provide a flexible framework to respond appropriately to a variety of adverse financial situations. In undertaking its Stress Tests of the Medium-Term Financial Strategy, the appropriate response to an adverse financial situation may differ depending on the situation itself and its impact.

The Financial Sustainability Plan therefore covers the following:

- How a financial problem is identified.
- How a financial problem is assessed.
- Procedures for Financial Sustainability for different levels of financial issues
- Current potential savings options
- Current potential funding options

Appendices to the Plan, including potential savings and funding options, are reviewed and updated as necessary but as minimum biannually.

## Identifying a Financial Problem

To appropriately address any financial issues that might arise the Council first needs to know that an issue has arisen.

The Council operates a comprehensive budget monitoring process and appropriate internal controls that will provide prompt warning of an actual or potential issue.

There are several ways an issue may be identified. Examples are provided below, though this is not an exhaustive list.

- **Horizon Scanning:** The Council monitors closely the environment in which it operates, keeping track of both sector specific issues and wider issues in the economy and political environment. For example, through membership to external organisations such as London Councils and the Local Government Association, as well as through networks such as the London Finance Officers' Group.

This often enables future issues to be identified and appropriately addressed before they have an adverse effect on the organisation.

An awareness of the environment also enables swift action when there is an unexpected change, for example the Government's surprise announcement that funding is being reduced in future years.

- **Internal Controls:** There is a comprehensive internal control system that is validated periodically by both internal audit and external audit. These controls are designed to provide early warning that an unexpected issue may be on the horizon.

A key control in this context is the routine monthly management financial reporting and quarterly budget reporting to Cabinet. As part of these reports' significant changes in both financial performance and the environment are reviewed and extrapolated to highlight any issues on the horizon.

- **External Advisors:** Appropriate use of external advisors to assist in both horizon scanning and validating / improving internal controls, for example financial consultants LG Futures and Treasury advisors Arlingclose.

## Financial Sustainability Procedures

Once a potential financial issue is identified the Sustainability procedures are activated. There are 4 stages to the Sustainability Procedures:

- **Assessing the Financial Problem:** to determine the appropriate course of action.
- **Selecting the Appropriate Sustainability Procedure:** to address the issue in question.
- **Implementing the Appropriate Sustainability Procedure**
- **Reviewing the Outcomes of the Procedure:** to enhance learning and support continuous improvement.

## Financial Sustainability Safety Net

The Council has in place several safety nets to mitigate unexpected costs or assist in the delivery of savings. These include:

- A Risk Reserve (£18.2m) specifically to mitigate risks around income generation, council tax cost of living relief fund costs and inflation.
- A social care risk contingency (£1.5m) and social care pressures reserve (£3.1m).
- A Collection Fund smoothing reserve (£33.2m) to manage business rate and council tax income risks.
- A budget contingency of £3.1m.

As an area of last resort, the Council holds a General Fund reserve of £20m. The balance should not fall below £20m and the use of the reserve is for when the Council has no other options available.

Similar for the HRA a r reserve of £10.2m is held as a last resort.

## Assessing the Financial Problem

The Sustainability procedure to be followed depends on 3 key factors:

- The potential **IMPACT** of the financial problem
- Whether this will be a **ONE-OFF** or a **RECURRING** problem
- Whether the impact is **IMMEDIATE** or will happen in the **FUTURE**

The **Section 151 Officer** is responsible for assessing the financial problem against these 3 factors to determine which Sustainability procedure to implement.

The **IMPACT** is assessed using the following scale:

	Revenue	Capital
<b>CRITICAL - 5</b>	Forecast spend to be over 8% of net budget (£35+m) - Significant use of reserves and Sustainability Safety Net utilised.	Forecast spend to be over 40% of MTFS capital borrowing budget (£27+m) – Use of Sustainability safety Net to support revenue costs of capital in the short term.
<b>CRITICAL – 4</b>	Forecast spend to be up to 8% of net budget (£35m) – Use of reserves and Sustainability Safety Net utilised.	Forecast spend to be up to 40% of MTFS capital borrowing budget (£27m) – Use of Sustainability safety Net to support revenue costs of capital in the short term.
<b>SERIOUS</b>	Forecast spend to be up to 5% of net budget (£20m) – Use of Sustainability Safety Net required.	Forecast spend to be up to 30% of MTFS capital borrowing budget (£20m) – Use of Sustainability safety Net to support revenue costs of capital in the short term.
<b>MODERATE</b>	Forecast spend to be up to 2% of net budget (£10m) – A Combination of costs reduction and use of Sustainability Safety Net required.	Forecast spend to be up to 20% of MTFS capital borrowing budget (£13m) – Seek to address overspend through a reduction in costs and other funding areas.
<b>MINOR</b>	Forecast spend to be up to 1% of net budget (£5m) – Seek to address overspend through a reduction in costs in other areas.	Forecast spend to be up to 10% of MTFS capital borrowing budget (£7m) – Seek to address overspend through a reduction in costs in other areas.

The Financial Sustainability Plan will only be relevant for Critical 4 and Critical 5 risks. Serious, moderate, or minor risks fall outside the scope of this plan as normal routine financial management should be sufficient to manage these types of risks.

Assessing the impact of the financial problem is not always a precise science. Where there is an element of judgement the Section 151 Officer will err on the side of caution.

## HRA Financial Sustainability

The HRA has sustainability parameters which are an interest cover ratio calculation of 1.15 and minimum reserve balances of £10m. As long as the capital and revenue spend remain within these thresholds, the HRA activity is deemed affordable. Being a 30 year plan, the business plan forward forecasts these parameters to ensure affordability and allows for early mitigations should issues arise.

Where monitoring highlights potential breaches of these parameters the capital programme will need to be reviewed to bring the indicators back into line.

## Selecting the Appropriate Sustainability Procedure

Once the problem has been assessed the **Section 151 Officer** is responsible for implementing the appropriate Sustainability Procedure.

There are **3 Sustainability Procedures** as follows:

- Emergency Sustainability Procedure
- Urgent Sustainability Procedure
- Planned Sustainability Procedure

	CRITICAL 5	CRITICAL 4	SERIOUS	MODERATE	MINOR
IMMEDIATE RECURRING	EMERGENCY PROCEDURE	URGENT PROCEDURE	PLANNED PROCEDURE	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT
IMMEDIATE ONE-OFF	EMERGENCY PROCEDURE	URGENT PROCEDURE	PLANNED PROCEDURE	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT
FUTURE RECURRING	URGENT PROCEDURE	PLANNED PROCEDURE	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT
FUTURE ONE-OFF	URGENT PROCEDURE	PLANNED PROCEDURE	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT	ROUTINE FINANCIAL MANAGEMENT

## Implementing the Appropriate Sustainability Procedure

### Emergency Sustainability Procedure

1	Notify <b>Chief Executive</b> that Emergency Sustainability Procedure must be implemented, providing a brief outline of the situation
2	Notify the <b>Mayor and Portfolio Holder for Resources and Cost of Living</b> that the Emergency Sustainability Procedure must be implemented, providing a brief outline of the situation
3	Arrange an <b>Emergency Meeting of the Corporate Management Team (CMT)</b> to take place as soon as possible (target = within 3 business days)
4	Review the <b>Identified Savings Options</b> (Appendix 1) and determine which might be most appropriate / helpful in the current situation.
5	Prepare a report for the <b>Mayor's Advisory Board</b> that summarises: <ul style="list-style-type: none"> <li>• The situation, how it arose and how it was identified.</li> <li>• The potential impact of the situation</li> <li>• What is required to resolve the situation (e.g. levels of savings or funding required)</li> <li>• Options to resolve the situation such as those identified from Appendix 1, including detail of the potential impact of those options, how soon they can be implemented, how easy they are to implement and any costs of implementation</li> </ul>
6	<b>Cabinet Meeting</b> Cabinet meets, considers options and where possible agrees an appropriate plan for implementation, subject to the scrutiny call in procedures.
7	<b>Audit Committee</b> The Audit Committee consider the plan in relation to addressing risk and the administration of the Council's financial affairs.
8	Immediate implementation of the agreed Sustainability Action Plan
9	Build the agreed plan into a revised Medium Term Financial Strategy to be approved by Cabinet
10	<b>Scrutiny Committee</b> The committee scrutinises the plan and its effectiveness, proposing changes where required.

## Urgent Sustainability Procedure

1	Notify <b>Chief Executive</b> that the Urgent Sustainability Procedure must be implemented, providing a brief outline of the situation
2	Notify the <b>Mayor and Portfolio Holder for Resources and Cost of Living</b> that the Urgent Sustainability Procedure must be implemented, providing a brief outline of the situation
3	Arrange a meeting of the <b>Corporate Management Team (CMT)</b> to take place as soon as possible (target = within 7 business days)
4	All members of the Corporate Management Team (CMT) meet individually with the Chief Executive and the Section 151 Officer to provide suggestions for achievable savings and details of their implications
5	Review the <b>Identified Savings Options</b> (Appendix 1) and compile the savings suggestions provided by CMT
6	CMT meets to agree in principle a future savings plan and funding options (if applicable) to address the situation
7	Prepare a report for the <b>Mayor's Advisory Board</b> that summarises: <ul style="list-style-type: none"> <li>• The situation, how it arose and how it was identified.</li> <li>• The potential impact of the situation</li> <li>• What is required to resolve the situation (e.g. levels of savings or funding required)</li> <li>• Options to resolve the situation, including detail of the potential impact of those options, how soon they can be implemented, how easy they are to implement and any costs of implementation</li> </ul>
8	<b>Cabinet Meeting</b> Cabinet meets, considers options and where possible agrees an appropriate Sustainability Plan for implementation, subject to the scrutiny call in procedures.
9	<b>Audit Committee</b> The Audit Committee consider the plan in relation to addressing risk and the administration of the Council's financial affairs.
10	Immediate implementation of the agreed plan
11	Build the agreed plan into a revised Medium Term Financial Strategy to be approved by Cabinet
12	<b>Scrutiny Committee</b> The committee scrutinises the plan and its effectiveness, proposing changes where required.

## Planned Sustainability Procedure

1	Notify <b>Chief Executive</b> that the Planned Sustainability Procedure must be implemented, providing a brief outline of the situation
2	Notify the <b>Mayor and Portfolio Holder for Resources and Cost of Living</b> that the Planned Sustainability Procedure must be implemented, providing a brief outline of the situation.
3	The Section 151 Officer meets with relevant members of the Corporate Management Team (CMT) to discuss possible mitigations / savings and their possible implications
4	Review the <b>Identified Savings Options</b> (Appendix 1) and compile the savings suggestions provided by CMT discussions
5	CMT meets to agree in principle a future savings plan and funding options (if applicable) to address the situation
6	Prepare a report for the <b>Mayor's Advisory Board</b> that summarises: <ul style="list-style-type: none"> <li>• The situation, how it arose and how it was identified.</li> <li>• The potential impact of the situation</li> <li>• What is required to resolve the situation (e.g. levels of savings or funding required)</li> <li>• Options to resolve the situation, including detail of the potential impact of those options, how soon they can be implemented, how easy they are to implement and any costs of implementation</li> </ul>
7	<b>Cabinet Meeting</b> Cabinet meets, considers options and where possible agrees an appropriate Sustainability Plan for implementation and corresponding revised budgets, subject to the scrutiny call in procedures.
8	<b>Audit Committee</b> The Audit Committee consider the plan in relation to addressing risk and the administration of the Council's financial affairs.
9	Implementation of the agreed Sustainability Action Plan.
10	Sustainability Plan Actions are incorporated in the next routine update of the Medium-Term Financial Strategy.
11	<b>Scrutiny Committee</b> The committee scrutinises the plan and its effectiveness, proposing changes where required.

## Reviewing the Outcomes of the Procedure

Where a Sustainability Procedure has been implemented the **Section 151 Officer** is responsible for monitoring its efficacy and identifying any lessons that can be learned. Regular reporting to members will also take place with the Scrutiny Committee also assessing the effectiveness of the plan.

Progress against savings targets will be monitored through routine Financial Performance Reporting.

## Appendix 1 – Financial Sustainability Plan Mitigations

Action	Area	Cash value	Description	Consequences
Pilots of newly approved discretionary growth	Approved Growth	£26m	Undertake a pilot of growths to determine Best Value.	Where best value isn't achieved activities could be stopped.
No new growth and review of future approved growth	New and Future Growth	-	Current future growth included in the MTFS is reviewed for ability to pause. Any new growth needs to be for a statutory obligation.	New projects or initiatives could be delayed.
Freeze of staff recruitment		£260m (total direct employee costs budget)	Roles that become vacant are not replaced and only in exceptional circumstances are roles recruited to.	Reduced capacity to deliver services
Review of discretionary services	Discretionary Services	-	Review of discretionary services to ascertain potential to reduce or stop.	Reduction in level of discretionary services offered.
Review level of statutory services offered	Statutory Services	-	Statutory services have to be delivered but there is flexibility into the level they are delivered at.	Reduction in level of statutory services offered.
Asset Sales	Non-current (fixed) assets	£1.6bn of other land & building	Potential to sell surplus assets to generate additional income.	Assets may not be available to support service delivery.
Delay or freeze in capital expenditure	Capital Programme	£66.3m of capital borrowing	Review of capital projects to identify which ones can be paused or delayed reducing borrowing costs.	Capital programmes maybe delayed or paused having an impact on the services they would be providing.

