




East Herts Financial Sustainability Strategy

Future Proofing Our Financial Security



 @Eastherts

 EastHertsDC

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Financial Sustainability Strategy

Aims and Objectives

Local Government is increasingly under pressure to become independent from external funding sources – essentially central government. This drive coupled with the opportunity to minimise the burden on local council tax and business rate payers is a key driver for the implementation of a Financial Sustainability Strategy.

The financial aim for East Herts Council is to deliver a financial return which contributes to the council spending plans and to support priority outcomes in the local community. This will be delivered by the following actions:

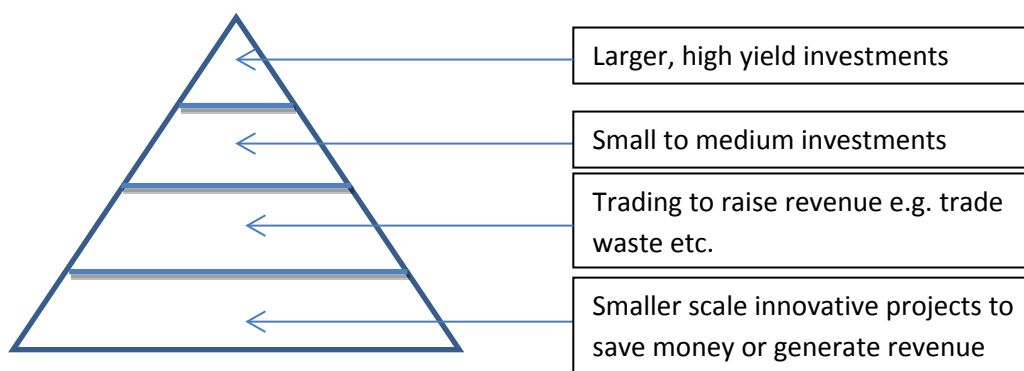
- Deliver a financial return and contribution in order to cross subsidise those services which by their nature cannot pay for themselves;
- Non-statutory services should at least cover all their costs.;
- Attract alternative investment models to support service delivery;
- Invest and use our financial resources to deliver a financial return;

The measure of this progress will be incorporated in the ongoing financial planning and management reporting framework and form part of the statutory budget setting framework requirements.

Structure of Financial Sustainability Pyramid

This Financial Sustainability Strategy is made up of four main components that together supplement traditional financial management. These components are managed within the traditional financial management process in business which leads to the usual budget setting processes of controlling spend, generating income and making savings.

Financial Sustainability is key component of this process and can be set out as a separate strategy that seeks to generate income or boost financial resilience through specific projects and initiatives to assist in closing any budget gaps. This financial modelling is broadly made up of four components that range from more numerous lower risk/lower impact to fewer in number higher risk*/higher impact:



*The nature of investment and risk means that higher spend projects will by definition always contain higher risk (in terms of spend relative to a total pot) than lower spend ones regardless of the risk of a given project/investment

A smaller number of higher yield projects/investments will likely provide significant sums while a greater number of lower yield projects/investments provide more modest returns while spreading risk and embedding a culture of entrepreneurship throughout the organisation.

Different components of Financial Sustainability

Rates of Return

An approach many councils have set-up to accelerate the project process in terms of investments is agreeing a set rate of return for projects/investments known as the "hurdle rate" over the life time of the initiative.

For extremely low risk projects a lowered hurdle rate - say 2% - is acceptable but these projects/investments must thoroughly evidence how and why the risk is much lower e.g. are they part of a scheme with guaranteed returns, treasury bonds etc.

Some projects may give a lower rate of return but provide wider community benefits (e.g. opportunities for other income outcomes for example selling business support services at the Launchpad in Bishop's Stortford). For these it is expected that a return is still generated (barring exceptional circumstances); however a lower one is required due to the added social value.

Risk/purpose	Minimum acceptable return
Higher risk/reward	6%
Standard risk/reward	5%
Low risk/reward	3%
Wider community benefits	2%

The Risk will be evaluated using the corporate risk matrix attached at appendix A.

Investments in commercial properties

East Herts aims to be one of a number of financially sustainable councils that achieve independence from central government funding. Such councils are diverse and take a wide range of approaches to achieve financial independence. However one thing they all have in common is investments in commercial properties for a given rate of return.

East Herts has the appetite to consider opportunities inside and outside of the district as there are limited options internally and this could constrain the portfolio of investments to either result in reduced returns, excessive risk, or both.

This strategy proposes the implementation of an investment board with an established annually agreed budget. The board will consist of elected members and officers. It shall have two permanent individuals on it: the portfolio holder for Finance and Support Services and the Head of Strategic Finance. Other officers will contribute to the board as and when required.

The board's delegated budget will be available for investment opportunities and they will review opportunities and assess them according to risk and return. The board will be looking purely for financial return with an emphasis on safe and secure investments.

A structure and analysis of any potential opportunity must pass a set of pre-determined risk matrix included as appendix A.

Support for commercial thinking

The outline process to approve commercial projects/investments will be delivered at regular bi-monthly investment meetings. Initially it is suggested that the group should be a continuation the financial sustainability group which currently consists of 6 members and 3 officers currently. It is at this forum that regular opportunities are discussed and managed. As the strategy is developed further this governance may be replaced with something else depending of the findings of the exploration work.

Potential actions as to how governance arrangements might be initiated.

Outline of support for officers

- Commercial thinking training (e.g. session in early 2019)
- Commercialism lead (currently Head of Strategic Finance and Property)- an in house resource with business acumen who can manage commercial projects and investments and can be used as a consultant/advice source by service launching commercial projects

Development of Current Services

The work carried out to date to consider for future funding opportunities has resulted in a number of Officer and member workshops. Following the successful initial initiative "Have your say " in 2018/19, further "Have your Say 2" workshop series focussed on Statutory/non-statutory functions and potential income stream from those provisions.

Based on the outcomes of these sessions the following areas were suggested as requiring additional investigation.

Have your say results														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Development Control Section	█													
Building Control														
Community Protection														
Engineering & drainage function	█	█												
Environmental Health Section														
Env Pollution														
CAB grant	█	█												
Community projects														
Housing Service														
Parks Section														
Business Support Section	█	█												
Allotments														
Playgrounds														
Public Conveniences														
Refuse Collection Domestic														
Refuse Collection Commercial														
Clinical Waste														
Street Cleansing and Litter Control														
Recycling														
Parks & Open Spaces	█	█												
Leisure Provision														
Car Parking														
Hertford Theatre														

Actions Arising from Results

The Financial Sustainability member group met in December 2018 and using the information provided set out an action plan for the following 12 months.

Using the areas of service that were highlighted members prepared a number of key actions that should be delivered throughout 2019-20 in preparation for the 2020 budget cycle.

These were ideas that could raise income or reduce expenditure whilst still maintaining an expected level of service and not compromising the delivery of statutory services.

Below is the action list of work to be considered:

Service	Action	Responsibility
Development Control Section	Investigate new income streams and further develop opportunities for improved revenue streams	Head of Development Control
Engineering & drainage function	Review responsibilities for this role as a District Council	Head of Housing and Health
CAB grant	Consider the level of funding the the measured outcome gained from this level of investment	Head of Housing and Health
Allotments	Review level of investment and volumes - consider who is best placed for their management	Head of Operations
Public Conveniences	Review level of investment and volumes - consider who is best placed for their management	Head of Operations
Refuse Collection Commercial	Consider a joined up more commercial offering with North Herts ensuring economies of scale and streamlined charging	Head of Operations
Clinical Waste	Consider a joined up more commercial offering with North Herts ensuring economies of scale and streamlined charging	Head of Operations
Leisure Provision	Develop and consider future provision and contract management, maximising income streams	Head of Operations
Car Parking	Set up a task and finish group to consider future parking policy that is fit for purpose and is embedded in future years planning	Head of Operations
Hertford Theatre	Develop and consider future provision and contract management, maximising income streams	Head of Operations

Appendix A - Risk Matrix and acceptable levels of return for investment in commercial properties

Example of Risk Scoring Investment table based on feedback from the Financial Sustainability Group.

This table can be updated and re-aligned as the Councils appetite for risk changes

Financial Sustainability Investment Decision table		
Category	Information	Score
What is the Location of the site considered to be ?	Micro prime	12
What is the Tenant Covenant within the site?	Single tenant with good financial covenant	16
What are the current Lease Terms?	unencumbered lease	15
What is the Occupational Lease Length?	Greater than 20 years	15
How is the Building Quality rated?	Modern or recently refurbished with nominal capex required	10
What is the Tenure offered ?	Freehold	10
What are the Tenant Repair obligations?	FRI	10
What is the Lot Size valuation?	Between £4m and £6m	5
Total		93
If all information present:		
MAX score = 100		
MIN Score = 20		

The Risk Matrix supports member and officer decision making by flagging up the potential risk levels of any type of investment.

In turn the level of risk can be compared to a defined investment level required as referred to in the table below:

Risk/purpose	Minimum acceptable return	Scoring levels based on risk table above
Higher risk/reward	6%	30 -50
Standard risk/reward	5%	50-70
Low risk/reward	3%	70-90
Wider community benefits	2%	Not included above