

Committee: Cabinet

Date of meeting: 13 September 2017

Subject:	Medium Term Financial Plan and Budget Strategy 2018/19
Lead Officer:	Strategic Director & Deputy Chief Executive
Portfolio Holder:	Leader – Councillor S.J. Selleck Portfolio Holder for Resources – Councillor C.R. Sadler
Link to Council Priorities:	All
Exempt information:	None
Delegated status:	For Recommendation to Council on 27 September 2017
Key Decision:	Not Applicable

EXECUTIVE SUMMARY:

Elmbridge Borough Council takes a multi-year approach to its budget planning and monitoring, recognising the two are closely linked. Following the agreement of the Medium Term Financial Strategy (MTFS) by Council in February 2017, this report updates on the Budget position for 2018-2020 as included in the MTFS and also sets out the forecast savings required to balance the budget over the medium term, in the context of the funding reductions from the national Government.

RECOMMENDED: THAT

- (A) CABINET NOTE THE CONTINUING FORECAST BUDGET “GAP” OVER THE MEDIUM TERM, AND AGREE THAT A SAVINGS TARGET OF £1 MILLION SHOULD BE SET FOR 2018/19;**
- (B) AGREE THAT OFFICERS BE ASKED TO IDENTIFY ADDITIONAL INCOME STREAMS AND SAVINGS TO ENABLE A BALANCED BUDGET TO BE SET FOR 2018/19 AND BEYOND;**
- (C) AGREE THAT OFFICERS IN LIAISON WITH THE RELEVANT PORTFOLIO HOLDERS, WORK UP DETAILED SERVICE PLANS AND BUDGET PROPOSALS IN ACCORDANCE WITH COUNCIL PRIORITIES;**
- (D) NOTE THE OUTLINE HIGH LEVEL BUDGET TIMETABLE IN SECTION 9.**
- (E) DELEGATED AUTHORITY BE GIVEN TO THE STRATEGIC DIRECTOR AND DEPUTY CHIEF EXECUTIVE AS SECTION 151 OFFICER, IN CONSULTATION WITH THE LEADER AND THE PORTFOLIO HOLDER FOR RESOURCES TO SUBMIT AN APPLICATION TO BE PART OF A 100% BUSINESS RATES RETENTION PILOT FOR 2018/19, FOLLOWING CAREFUL CONSIDERATION OF THE IMPLICATIONS.**

REPORT:

1. Background

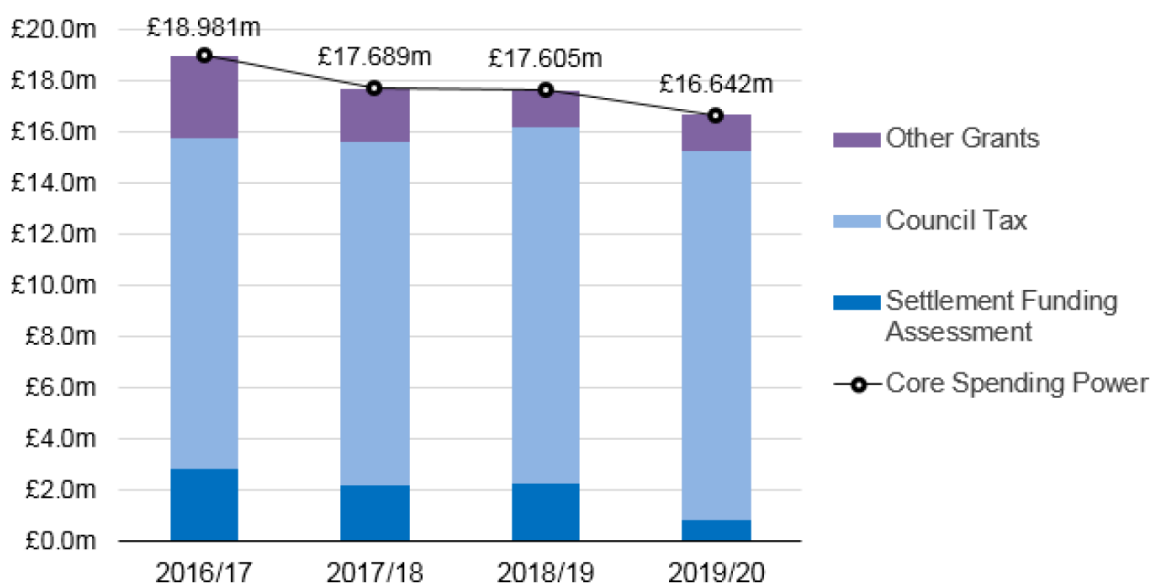
1.1 Finance Settlement and Local Context

As part of the 2016/17 financial settlement, the government made an offer to local authorities to guarantee the level of funding for four years (2016/17 – 2019/20). Elmbridge accepted the offer and the amount contained within the provisional settlement in accordance with the government’s commitment. It should be noted that DCLG have not provided any funding indications beyond 2019/20.

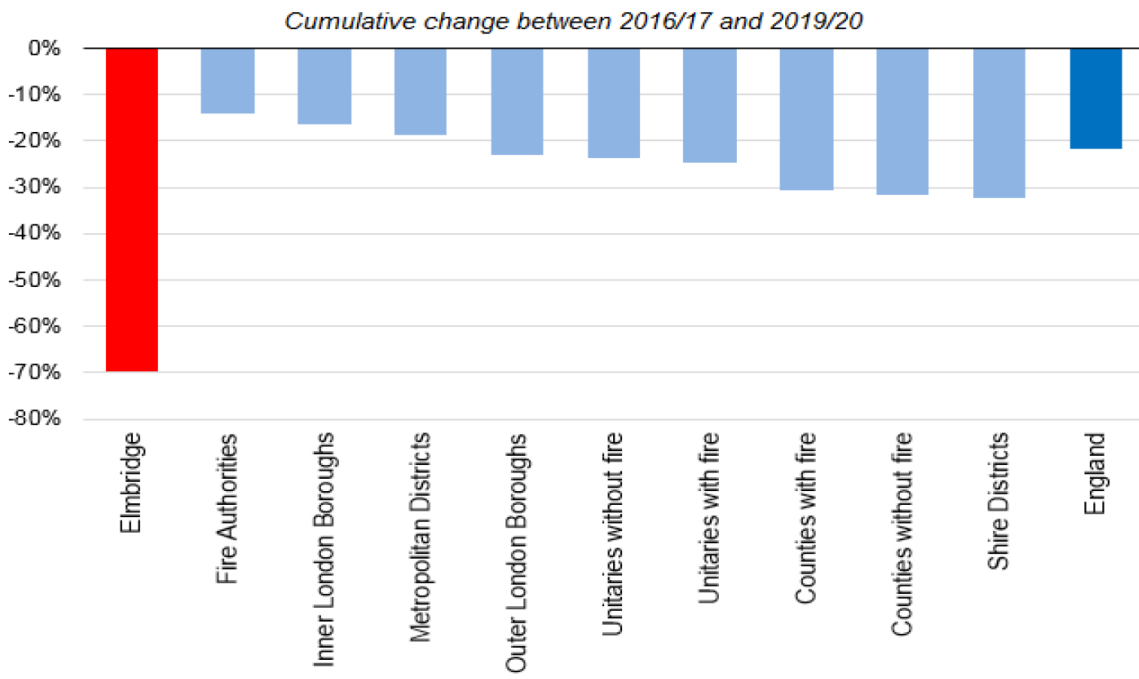
The following were the Key Headlines for Elmbridge:

- The RSG component of the Formula Grant has been completely eliminated from 2017/18.
- The Settlement Funding Assessment (SFA) reduces by 79% over the period of the four-year settlement.
- The transitional grants received to smooth the effects of the grant reductions is not available beyond 2017/18.
- There are further funding adjustments from 2019/20 onwards which takes away more funding from Elmbridge. This results in a “negative RSG” ie Elmbridge is paying tax/contributing (£1.5 million) to other local authorities via DCLG with the funding being “sliced” from the NDR element of the Formula Grant.
- Elmbridge has suffered significant reductions compared to other Shire Districts or even the England average as can be seen in the graphs shown:

Core Spending Power - Elmbridge



Cumulative change in SFA by class of authority



1.2 Four-Year Settlement Offer

The Provisional Settlement in 2016/17 included indicative figures about funding for the next four years, and made an “offer” to local government guaranteeing the level of funding should Councils wish to take the offer.

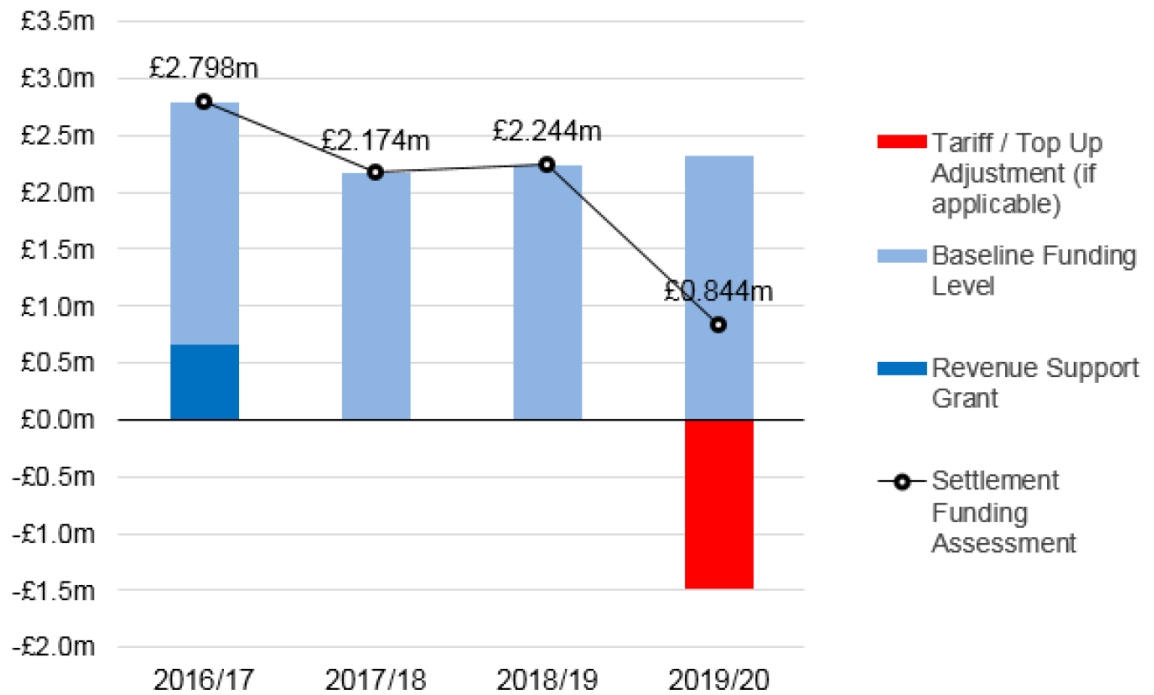
The Council accepted the government’s offer in September 2016 and the settlement is in line with the government’s commitment as shown in the table overleaf.

In order to smooth the significant drop in funding, the government made available additional funding by way of a “Transitional Grant” to authorities, of which Elmbridge was one who had seen significant reductions in central government support. In 2017/18 the Council will receive £190,000 (2016/17 £256,000) in Transitional Grant. No grant is due for 2018/19 or 2019/20.

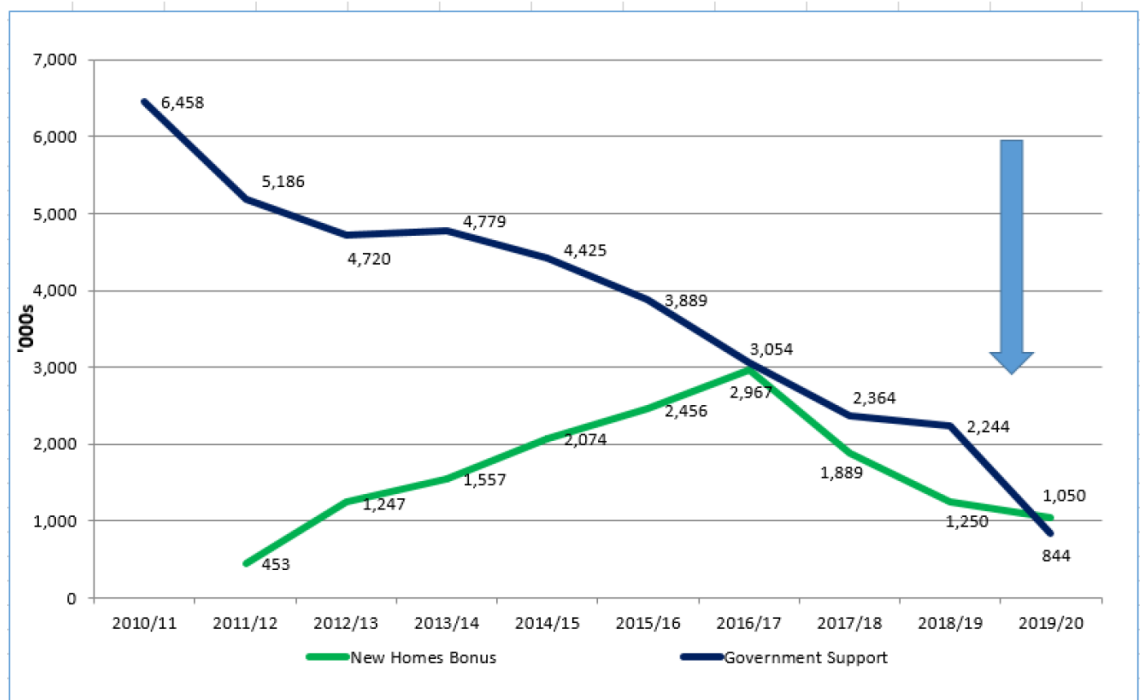
In 2019/20 the Council will effectively have a negative RSG of £1.5 million. The Government proposes to achieve this by deducting the negative RSG from the Council’s Business Rate retained amount, reducing the level of Business Rates retained from £2.3 million to £0.8 million, a 65% reduction.

To put this into perspective, Elmbridge Council collects £64 million in Business Rates but currently retains a very small proportion (4%) of amount collected. This will further reduce to 1.3% with the effect of a negative RSG.

Settlement Funding Assessment



Government Funding 2010/11 to 2019/20



Total Government Support (Grant) will decrease by £5.6m or 87% from 2010/11 to 2019/20

Delivering the Council's Priorities

- 1.3 The context in which the Council's Budget is set is influenced by:
- The Council's vision, Council Plan and its Priorities;
 - The Council's Medium Term Financial Strategy (MTFS);
 - Central government policies, including legislative change, which may require additional expenditure in areas that would otherwise not be Council priorities;
 - External drivers – demand for services, inflationary pressures, change in interest rates, etc.; and
 - The Administration's priorities.
- 1.4 Maintaining the Council's financial resilience ensures the effective delivery of service during a difficult economic period and significantly reduced funding. It also commits the Authority to delivering the Council's vision and priorities for Elmbridge, making clear that the future lies in working effectively across the whole public sector.
- 1.5 The Council is currently consulting on a new Vision and Priorities which will set the priorities and future direction for the next five years.
- 1.6 The Council has delivered against very ambitious plans and targets and continues to be a strong Council performing well. However, despite the financial challenges, we do not want to diminish our ambitions for the future, but continue to provide quality services that our residents and businesses value.
- 1.7 It is acknowledged that there is a need to manage budgets prudently and improve income streams such as those related to the Commercial Investment Property Portfolio that has been built up in recent years. Equally there is a need to maintain standards of service for our residents who, not unreasonably, have high expectations. These trends seem likely to continue given central Government's desire to reduce its net deficit. In addition, financial pressures on other parts of the public sector such as Surrey County Council and the NHS are already adversely impacting on the support we receive from these organisations.

2. Reasons for Recommendations

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents.

The current Medium Term Financial Plan (MTFP) reflects assumptions about the local and national financial, economic and political environment. Setting a three-year budget is a key element of the Council's multi-year approach for financial strategy and its aim of achieving a sustainable financial position, reporting and monitoring throughout the year will enable corrective action to be taken if required.

The 100% Business Rates Retention Scheme will introduce many significant changes to local authorities spending responsibilities and funding sources that are as yet, unknown. As such the Government has only provided funding totals to the Councils for the period up to 2019/20. Given the uncertainty beyond 2019/20, the MTFP is currently limited for the period up to 3 years. The Council

needs to continue to identify and implement further measures to reduce its spending to be contained within known resources. The continued theme is the need to make new savings or identify additional income annually, to meet the challenge of rising costs and reduced external funding.

This report is part of the Council's budget setting and service planning process. The MTFs was recommended by Cabinet and approved by Council in February 2017. The budget report to Council included forecasts for the period 2018/19 to 2020/21. Whilst proposals for the 2017/18 budgets have been through a detailed budget review process, this report seeks to agree the approach for 2018/19 so that detailed proposals can be worked upon by officers for Member consideration and approval later in the year.

3. 100% Business Rates Retention in 2018/19

On 1 September, DCLG issued an invitation and guidance to local authorities for 100% Business Rates Retention pilots in 2018 to 2019. The guidance specifically states that they would like to focus on rural and county areas for this tranche of pilots and the intention is to pioneer new pooling and tier-split models. DCLG asks that councils come forward with proposals for how the pilot would function in their area, including how the arrangements would be used to both support sustainable finances and promote growth across the whole area, they also ask for details of how business rates will be handled between two tiers (where relevant), what the tier-split would be and who the lead authority would be within the new arrangements.

- 3.1 The 2018/19 pilot will last for one year only, and does not prejudice the discussion DCLG will be continuing to have with Local Government on the future of the business rates retention system.
- 3.2 Applications must include details on how participation in the pilot scheme will benefit the area and should cover the potential pilot's approach to pooling and the sharing of growth, including how authorities will collaborate to use pooled retained income to promote further growth across the area. In two tier areas like Surrey, applications should propose a tier split and explain how this will promote sustainability and the financial case should reflect these considerations. An indication of how the area will work together in the longer term is also expected to be included.
- 3.3 To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool in 2018/19 and to put in place local arrangements and governance arrangements to pool their additional Business Rates income. Districts in Surrey and SCC will work with LG Futures to develop a proposal and submit an application to become a pilot following consultation with the Leader and the Portfolio Holder for Resources.
- 3.4 Any proposals for pilots must be received by DCLG on or before Friday 27 October 2017. Final decisions will be announced by end of December 2017 with accepted pilots going live from April 2018.

4. Balancing the Budget in the Medium Term

- 4.1 While the Council has set a balanced budget for 2017/18 and is working from a sound financial base, a very challenging period faces all of the public sector, including local authorities. Detailed work has been undertaken to forecast the Council's need to spend on its services, and its likely income over the next three-year period 2018/19 to 2020/21. It is estimated that the Council will face a funding gap in excess of £4 million over that period. Officers will also look to see what scope there is to use sums from reserves to support the budget on a sustainable basis, without compromising the Council's financial standing.

In addition, the support that the Council can provide through all of its activities to stimulate and promote economic growth, business development and job creation in the Borough remains central to the delivery of the MTFS.

The Council will seek to optimise the use of its reserve balances in delivering priorities, making decisions on a corporate basis and maximising opportunities to maintain an appropriate balance between short-term expenditure and long-term investment. Reserves will be used wisely for investments that will contribute towards financial independence and resilience for the Council.

The Council currently generates a modest rental income to support the revenue base budget. The Financial Strategy for the medium term is focused on reducing the reliance on Government grants by the year 2020 by continuing to invest in Property Assets to secure regular rental income and retaining more Business Rates.

The Strategy is based upon the assumption that the Council will set a balanced budget as it is legally required to do. The extent that reserves are drawn upon in the short-term, mean they will need replenishment in the medium term. This will mean ensuring that the basic costs of services are affordable and sustainable within a defined level of Council Tax.

4.2 Fees & Charges

In addition to Government grants, retained business rates and council tax funding, the Council plans to raise £13 million in fees and charges in 2017/18.

Fees & Charges are agreed upfront for providing services that are either set by statute or through the Council's delegated authority and include fees, fines, licenses and penalties. The Fees & Charges are usually paid by individual members of the public in return for a service provided.

Every year services must review and update their fees and charges to ensure discretionary services for which a fee or a charge is applicable are not provided at a subsidy without a specific policy decision. Some of factors that are taken into account making charging decisions should include:

- Whether the service is statutory and any legal restrictions on charging;
- Cost of operating the service;
- The level of subsidy/underwriting by the Council;
- The objectives of the service;
- Existing levels of demand and competition;

- Benchmarking;
- Stakeholder and user information;
- Any financial analysis of the impact of changing decisions.

Over the medium term, the Strategy will require that, as a general rule, fees and charges should, as a minimum, increase in line with inflation and should where possible cover the cost of the service.

5. Outlook for Savings – 2018/19 to 2020/21

Based on this working assumption, the potential budget reductions required over the medium term (2018/19 – 2020/21) are provisionally estimated at around £4 million. For the Council to be completely grant-free, the budget gap is likely to be much higher with the SCC funding reductions and the clawback of the Business Rates beyond 2019/20, resulting in a potentially higher budget gap.

The Budget Gap for 2018/19 is estimated to be one million, 6% of the net revenue cost of providing our services.

on areas of underspend;

- Savings resulting from initiatives implemented in 2017/18;
- More efficient use of our assets;
- Invest and save – explore opportunities for creating a regular revenue stream;
- Review our Fees & Charges to ensure costs are fully recovered;
- Continue with Asset Investment/Development opportunities to secure rental income;

Whilst we are likely to be able to identify sufficient budget reductions or savings for next year, careful consideration needs to be given to the financial position in the medium to longer term. This points towards increasing fees & charges and sponsorship wherever reasonable and practical to safeguard the Council's financial position and make it more resilient to external funding reductions, especially if we are entering a period of rising inflation. In addition, a modest annual increase of Council Tax will help the Council to become financially resilient.

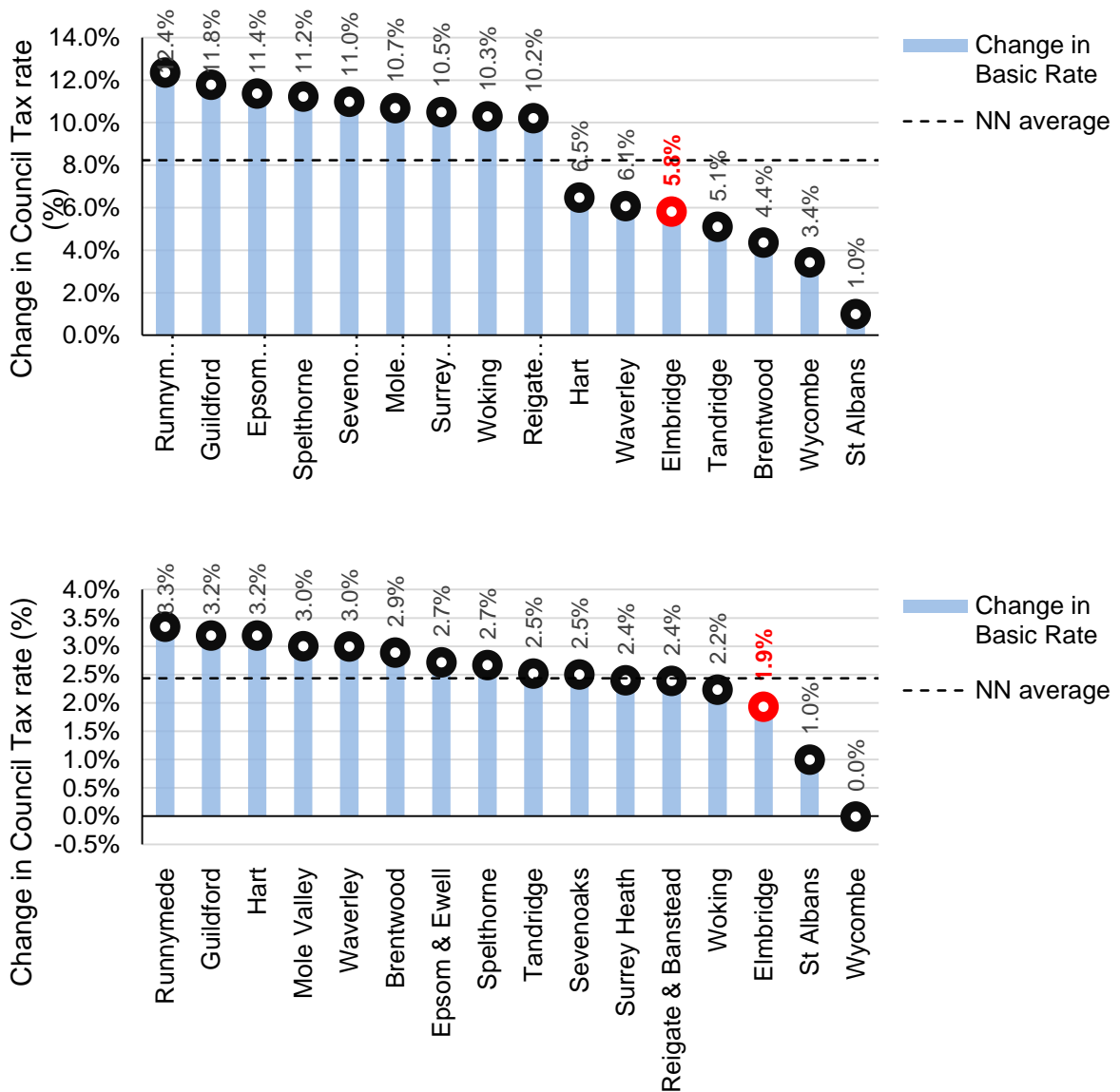
Council Tax

The amount of Council Tax which the Council receives is affected by the Council Tax level and the change in the Council Tax Base, a measure of the number of "Band D equivalent dwellings", which is adjusted to reflect discounts and Council Tax Support.

The Medium Term Financial Strategy reported in February assume a £4 increase on Council Tax for a Band D property.

Members will be aware that as part of the finance settlement District Councils have been given the freedom to increase Council Tax by £5 or 2%, whichever is greater until 2019/20. An additional £1 will generate £65k more Council Tax income for 2018/19 and the years following.

The following graph shows the change in Council Tax levels in the last five years for Districts and Boroughs in Surrey and our nearest neighbours and the second graph shows the increase in 2017/18:



Budget Growth Proposals

There will be further pressures in 2018/19 and future years arising from a combination of an increase in need on many of our frontline services, and a requirement to refocus resources on the key Council priorities, which must be funded from finite financial resources. Any growth proposals arising from services will need to have corresponding savings or additional income to fund the proposals and any unfunded growth will be reported as part of the Budget Proposals. Wherever possible each service area must first seek concomitant savings to cover any budget growth.

In considering the budget each year, the Council is required to look further ahead than the next financial year to ensure that the impact and affordability of proposals is assessed in future years.

6. Medium Term Financial Strategy - Approach

Prudent financial management over the last eight years has realised significant savings for the Council, and has resulted in the Council being able to continue to provide a wide range of services which residents value.

Lack of funding, due to lack of grant funding and constraints imposed by central Government might result in significant adverse long-term consequences for sustainability of ongoing services.

Whilst the above initiatives will help generate savings or additional income, a more radical approach is required for the Council to meet its aspiration of becoming financially self-sufficient by 2020. To achieve this, it is no longer acceptable to look at savings for a year at a time, but to have a strategy that identifies projects that will deliver savings in the medium to long term. One example of this is the Joint Waste Contract which helped deliver significant savings from 2017/18 onwards.

Despite the reduction in expenditure, going forward, the Council will still need to be in a position to provide services, and it needs to ensure that every pound is invested where it can have the most impact for the people of Elmbridge. It will need to develop a multi-year strategy with a clear outcomes framework, underpinned by annual financial plans and spending targets.

Our priorities place the people of Elmbridge at the forefront of our plans and investments and we must ensure that everything the Council does improve opportunities and well-being for residents. Obvious perhaps, but with the severe spending reductions, the risk is to become pre-occupied with our own internal organisation.

Given the seismic change needed in local government, the Council has to find ways of working which supports communities and individuals to become more self-sufficient.

Many of our services were designed in a different era and policy framework. During times when government transferred far more grant to fund local services; in the recent past, linking revenue support grant to standard spending assessments and previously, net spending levels determined by local authorities, through to grant-related expenditure assessments. Current funding no longer reflects demographic or socio-economic changes, as local government is expected to become self-sufficient and rely on locally raised revenues such as Council Tax income, Fees & Charges income and a share of Business Rates to fund local services.

At the same time as funding has been reduced, the population continues to grow and family life has changed. Medical advances are greater, resulting in people living longer. People move around more for jobs than in previous generations, so families cannot always be near to older relatives to help and care. Families are under increasing pressure, and society's concern for Adult's and Children's safety has placed additional responsibilities on local authorities for ensuring their protection.

The Council will need to be a very different organisation to make the changes required for the next decade. It will be agile and smaller, with fewer staff, different skills and a commercial approach have the ability to change pace whilst reducing costs, yet improving outcomes. For the Council to continue its journey of improving

efficiency and modernisation, radically re-shaping its services while reducing its costs needs to be a priority.

The Annual Governance Statement reported recently to the Audit & Standards Committee indicates that the Council has Good Governance and controls already in place. The future outlook for local government will require some difficult choices for Members, and there will be a continued need for constructive dialogue about options between Members and officers. Officers will continue to be held accountable for performance and ensure that accurate, good quality evidence and information is provided to Members to inform good governance and decision-making.

7. Funding from Surrey County Council (SCC)

As reported to Cabinet earlier this year, the reduction in funding from Surrey County Council continues. In addition to the reductions we are already aware of, there are changes being proposed for the waste arrangements resulting in a significant reduction in recycling credits for Surrey Districts. SCC has committed to giving an early indication of the level of savings required from a new financial mechanism in 2018/19, and the estimated impact on district and borough Councils. The current intention is for SCC to make a net saving of £4 million, phased in over a three-year period. Estimated payments from SCC to Elmbridge, based on allocating funding on a per household basis, is as follows:

	£'000
2017/18 (with £120k one-off payment)	671
2018/19	376
2019/20	258
2020/21	141

Estimated payments from SCC to Elmbridge, based on allocating funding on a per household basis reduces by more than 80% over the next three years. The above figures are indicative at this stage and are subject to change.

Given the continuing budget pressures experienced by SCC, it is expected that there will be further reductions to come.

The following summary shows the current budget position relating to SCC dependencies and the potential for further reductions with a risk rating on the likelihood of it materialising:

Grants and income received from Surrey County Council and projections for 2018/19

Code	Description	Budget 2016/17 £	Budget 2017/18 £	Variance between 16/17 & 17/18 £	Budget 2018/19 £	Variance between 17/18 & 18/19 £	Risk Rating H/M/L
HOUSING							
GC500	Care & Repair Agency	(73,630)	(73,630)	0	(73,630)	0	MEDIUM
GC5HP	Handyperson Scheme	(28,500)	(28,500)	0	(28,500)	0	HIGH
COMMUNITY							
GE1GE	Centres For The Community General	(146,210)	(73,110)	(73,100)	(73,110)	0	MEDIUM
GE1LD	Learning Disabilities	(105,600)	(105,600)	0	(105,600)	0	MEDIUM
GE2GE	Meals On Wheels-General	(67,020)	(33,510)	(33,510)	(33,510)	0	MEDIUM
GE300	Transport Services	(43,980)	(43,980)	0	(43,980)	0	HIGH
GE400	Community Alarm System	(15,000)	(15,000)	0	(15,000)	0	MEDIUM
GE600	Support For Carers	(74,250)	(37,120)	(37,130)	(37,120)	0	HIGH
ENVIRONMENT							
EB1GC	Weed Control	(27,830)	(24,230)	(3,600)	(15,510)	(8,720)	HIGH
EB1SA	Streetsmart	(40,000)	(40,000)	0	(40,000)	0	HIGH
EG6GW	Recycled Waste - green waste	(175,110)	(135,690)	(39,420)	(86,000)	(49,690)	HIGH
EG600	Mixed Recycling Credits	(781,090)	(384,300)	(396,790)	(244,000)	(140,300)	HIGH
EG6KW	Kitchen Waste	(80,000)	(72,000)	(8,000)	(46,000)	(26,000)	HIGH
LEISURE							
LC100	Hurst Park Maintenance	(9,980)	(9,980)	0	(9,980)	0	LOW
LC400	Highways Grass Cutting	(133,690)	(133,690)	0	(85,562)	(48,128)	HIGH
PLANNING - LAND CHARGES							
PF300	Search Fees - SCC element (offsets exp.)	(120,000)	(120,000)	0	(120,000)	0	LOW
TOTAL		(1,921,890)	(1,330,340)	(591,550)	(1,057,502)	(272,838)	
EC2SC	On Street Parking - EBC Share	(31,100)	(67,410)	36,310	(67,410)	0	HIGH

8. Capital Spending Programme

8.1 The Council reviews its capital spending plans each year and sets a Capital Programme. Revenue expenditure is concerned with the day-to-day running of services and capital expenditure is a key element in the development of the Council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme have an impact on the revenue budget, for example, in relation to:

- The revenue costs of financing capital, including prudential borrowing;
- The on-going running costs and upkeep of new assets such as buildings.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates. The aim of the detailed capital strategy is to provide a clear framework for funding and investment decisions in respect of capital assets, in the context of the Council's vision and priorities and its financial resources. All new projects are assessed in terms of their contribution to the Council Plan objectives. A key consideration when setting the capital programme is the level of available capital resources and affordability, which is assessed through the use of prudential indicators in the budget setting process.

The Council will only invest as long as its capital spending plans are **affordable, prudent and sustainable**. The key constraint on capital investment by the Council is the scope to afford the financial implications in terms of acceptable council tax levels.

- 8.2 Council approved the Capital Programme for 2017/18 and the provisional allocations for the next two years. It is recommended that spending of the Council's own resources is minimised by seeking to maximise the generation and spending of external funding, such as external grants, Community Infrastructure Levy and New Homes Bonus.
- 8.3 The strategy recommends that the Council will continue as in previous years to consider capital spending requirements along the following objectives:
- 1) Maintain the usefulness of operational assets;
 - 2) Meet statutory requirements, including Health & Safety;
 - 3) Invest to save, through the generation of associated revenue benefits.

9. Financial and Value for Money Implications

Delivery of VFM remains a Council priority. The Council assesses and challenges the value for money provided by each service through the annual budget setting process. The Council's Budget Review Process for 2018/19 requires that in seeking to deliver a balanced budget Cabinet Members would seek to identify options that would improve value for money through improving performance and/or reduce service costs.

The Government has indicated its intention to implement a 100% Business Rates Retention Scheme for local government from 2020. This will include a fair Funding Review and a pilot scheme to test practical application.

The 100% Business Rate Retention Scheme will introduce many significant changes to local authorities' spending responsibilities and funding sources that are as yet not confirmed. As such, the Government has only provided funding totals to Councils for the period 2017/18 to 2019/20. Over this period, reductions in Central Government funding together with service costs and volumes mean pressures on the Council's budget intensify.

10. Timetable for Budget Activity

Date	Activity
September	<ul style="list-style-type: none">Revenue Budget proposals to Cabinet & Performance and Finance Panel.
November	<ul style="list-style-type: none">Initial Revenue Budget proposals to Cabinet.
December	<ul style="list-style-type: none">Initial Revenue Budget Proposals and setting of Council Tax Base to Council.
Jan/Feb	<ul style="list-style-type: none">Local Government Finance Settlement.
February	<ul style="list-style-type: none">Revenue & Capital Budget proposals to Cabinet & Performance and Finance Panel.Cabinet recommends budget and Council Tax level to Council.
21 February 17	<ul style="list-style-type: none">Council approves Budget and Council Tax for 2018/19.

Financial implications:

The general fund balance (the sum held centrally for unavoidable cost increases and other unforeseen items) currently stands at £4m. The level of the balance will be reviewed annually in relation to the overall financial position of the Council, taking account of the advice of the Section 151 Officer and the operating financial environment in place at the time.

Environmental/Sustainability Implications:

None for the purposes of this report.

Legal implications:

The Council has a legal obligation to set a balanced budget each year. The Council Tax, however, must be set by 10 March 2018.

Equality Implications:

Where required, detailed Equalities Impact assessments will be undertaken for individual budget savings proposals at each stage of the budget process and the information revealed by these assessments will be taken into account in the decision-making process.

Risk Implications:

The two biggest risks to the budget process are non-delivery of the approved budget reductions and income levels which is mitigated by the Contingency budget and close monitoring by finance officers and Council Management Board.

Community Safety Implications:

There are no direct Community Safety implications as part of this report.

Principal Consultees:

Council Management Board
Cabinet Members

Background papers:

None for the purposes of this report.

Enclosures/Appendices:

None for the purposes of this report.

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