Committee: Performance & Finance Panel

Date of meeting: 12 November 2019

Subject:	Bridging the Funding Gap
Lead Officer:	Councillor B.J.F. Cheyne Chairman of the Performance and Finance Panel on behalf of the Performance and Finance Panel (Head of Finance and Head of Organisational Development)
Portfolio Holder:	Leader – Councillor S Selleck Resources – Councillor C Sadler
Link to Council Priorities:	All
Exempt information:	None
Delegated status:	For Recommendation to Overview & Scrutiny Committee on 21 November 2019
Key Decision:	Not Applicable

<u>Executive Summary</u>:

At it's meeting of 17 September 2019 the Finance Panel considered the Medium-Term Financial Plan (MTFP) (2020/21) due to be considered at the Cabinet meeting in September. The Panel requested that they work together to prepare a further report to consider options to assist with the financial issues over the period of the MTFP.

<u>Recommended</u>: that

(a) Agree principles for Fees & Charges (F&C) reviews as outlined in paragraph 1.3.

(b) Agree a strategy for reducing the Council's subsidy over a defined period of time by considering the cost of the service when setting the F&Cs.

(c) It be recommended to the Overview and Scrutiny Committee/Cabinet that the Performance and Finance Panel develop the following proposals in more detail around:-

i Discretionary v Statutory service provision
ii The level of service provision
iii The level of subsidy for chargeable and non-statutory services
iv Discretions/reductions in fees for services
v Provision of service (enabling v direct provision)
vi Outsourcing v insourcing

(d) The Council conducts a Budget Consultation/Survey seeking views from residents as referred to in paragraph 1.4.

(e) The panel's view on the options to assist the medium-term financial planning are forwarded to the next Overview and Scrutiny Committee and Cabinet.

Report:

1. Background

1.1 At its last meeting of the Performance and Finance Panel concern was expressed about the scale of the budget savings. The external pressures on the demand for services, central government funding reductions and other funding streams (SCC).

A number of options were discussed at the meeting and an indicative number of options which may be explored include:

i) Discretionary v Statutory service provision
ii) The level of service provision
iii) The level of subsidy for chargeable and non-statutory services
iv) Discretions/reductions in fees for services
v) Provision of service (enabling v direct provision)
vi) Outsourcing v insourcing

The panel may wish to consider a programme of activities around these headings or others they may wish to explore.

It was noted that CMB have met several times to discuss the budget position and a briefing has been given to the Leadership group with further work exploring options with the senior managers in March. However, whilst work is underway to identify ways to bridge the budget gap for 20/21, it is essential, given the uncertainty over the medium-term finances that a review should be undertaken now, and options explored to be able to include any savings or additional income for the 2021/22 budget and beyond. Any guidance or strategic direction from the Councillors would be invaluable to the work of the officers.

The Panel wished to further develop their ideas and pull this together in a report to be presented to the next Overview and Scrutiny Committee in November and that recommendations be made to Cabinet.

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

The current MTFS 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.

Balancing the Budget in the Medium Term

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

The current MTFS 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.

While the Panel recognises that the Council has set a balanced budget for 2019/20 and is working from a sound financial base, a very challenging period continues for all of the public sector, including local authorities. It is still estimated that the Council will face a funding gap of up to £5 million over the period of the medium-term mainly due to the uncertainty over the Fair Funding Review and the impact it will have on Elmbridge's share of funding. Officers will also look to see what scope there is to use modest amounts of reserves to support the budget on a sustainable basis, without compromising the Council's financial standing.

It was noted that 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 Panel recognises that the Council currently generates a modest net 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 continuing to invest in Property Assets to secure regular rental income and retaining more income from 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.

1.3 <u>Income from Fees & Charges (F&Cs)</u>

The Panel recognises that Local authorities have a wide range of powers to charge for a variety of services. The revenue generated through fees and charges is a source of income for the Council.

Fees and charges have a role to play in:

- Recovering the cost of providing that service
- Achieving council objectives
- Controlling access/use
- Funding investment
- Responding to competition
- Influencing public behaviour

The Council receives approximately £16.5 million from F&Cs. Some charges are set by legislation (eg licencing charges) whereas others, the Council has discretion to determine.

F&Cs are agreed in advance for providing services that are either set by statute or through the Council's delegated authority and include fees, fines, licenses and penalties. The F&Cs are usually paid by individual members of the public in return for a service provided and for the majority of the services the fee payer has a choice of the service.

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 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; and
- 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 cover the cost of the service.

The following principles should apply when reviewing F&Cs:

- A high-level review is performed on the fees and charges schedule each year to ensure the accuracy of the published data.
- A thorough review of each fee is undertaken on a rolling basis so that all fees and charges are reviewed at least once over the life of the MTFS (for fees and charges that require a thorough review more regularly, the review is undertaken as frequently as deemed necessary).
- The focus of the review being dependent on the fee being assessed and the level of concessions for the service.
- Develop an understanding of market, demand and internal cost drivers.
- To include benchmarking with local authorities and other relevant organisations.

1.4 The Council undertakes a great deal of resident consultation and it is suggested that consideration be given to undertaking a budget consultation exercise.

2. Medium Term Financial Strategy (MTFS)

The updated MTFS is set out below with the funding gap ranging between £1.3 million and £2.6 million depending on the local government finance settlement (and in particular the negative Revenue Support Grant (RSG)).

FINANCIAL PLAN 2020/21 TO 2022/23

MEDIUM TERM FINANCIAL STRATEGY (MTFS) - Updated August 2019	2019/20 Budget £'000	2020/21 Projection £'000	2021/22 Projection £'000	2022/23 Projection £'000
Net Budget Requirement to fund Services	**17,088**	**18,105**	**19,570**	**20,610**
Cost Pressures:				
Pay award including increments	450	350	360	370
Contract price increases	362	350	360	370
Approved Budget Growth	858			
Reduction in External Funding (SCC - Waste Recycling)		150	150	100
Budget Growth anticipated			200	200
Joint Waste		270		
Car Parking Income (Extension of Saturday free Parking)		55		
Fallout of EHT Pension Contribution		200		
Other		150		
Pensions Contribution -Triennial valuation		240	120	120
Increase in Interest on Balances	(100)	(100)	(50)	(50)
Investment Property related costs	170			
Savings/ Income:				
Approved Income + Savings	(265)			
Approved Fees & Charges Increases (Car Parking)	*(395)*	*(200)*	*(100)*	
Other	(63)			
Estimated Budget Requirement	**18,105**	**19,570**	**20,610**	**21,720**
Section 31 Government Grants				
New Homes Bonus	**(958)**	**(600)**	**(510)**	**(550)**
	-	-	-	
Contributions To/(From) Reserves				
New Homes Bonus Contribution to Reserves	**844**	**600**	**510**	**550**
Contribution from Grant Equalisation Reserve	**(157)**	**(150)**	**(150)**	**(150)**
To/(From) Earmarked Reserves	**(166)**			
Net Budget after the use of Reserves	**17,668**	**19,420**	**20,460**	**21,570**
Cumulative Funding Gap	**0**	**2,601**	**3,884**	**5,076**
Funded By:				
Business Rates retained	2,291	2,290	2,290	2,290
Negative Revenue Support Grant *		(1,290)	(1,790)	(2,290)
Business Rates - Share of Growth	500	*500*	*350*	350
Estimated Council Tax Collection Fund Surplus	54	100	100	100
Use of Business Rates Retention Reserve	500	500	500	500
Council Tax Income	14,323	14,719	15,126	15,544
Total Funding available	**17,668**	**16,819**	**16,576**	**16,494**
Council Tax Base (assumes 0.75% growth)	**64,720**	**65,205**	**65,694**	**66,187**
Band D Council Tax (indicative)	**221.30**	**225.73**	**230.24**	**234.85**
Increase (indicative) ^	**2.93%**	**2.00%**	**2.00%**	**2.00%**
Cumulative Funding Gap	**0**	**2,601**	**3,884**	**5,076**
Annual Funding Gap	**0**	**2,601**	**1,283**	**1,192**
Annual Funding Gap - Assuming Negative RSG is Delayed by 1 Year	**0**	**1,311**	**2,073**	**1,192**

* - The negative RSG assumption above assumes that the negative RSG will apply for 2020/21, this will be subject to confirmation in September, or the provisional settlement in late 2019.
^ - A 0.5% increase in Council Tax will raise approximately £70,000

The MTFS includes known spending pressures for 2019/20, Joint Waste, Car Parking and Pension related growth as well as appropriate allowances for inflationary increases. The savings identified to date include the increases in car parking charges (effective January 2020) and a potential to increase the interest earned from investments in the money market. There remains a number of potential growth items to be costed/approved before the 2020/21 budget is finalised including the running costs for Hersham Village Hall (subject to whether it is re-opened as a Public Hall) at this stage a further allowance of £150,000 has been included to cover all the unapproved growth items. This is in addition to the inflation on pay and contracts referred to earlier in the report.

Growth / Reductions in Income	**£'000**
Planned external funding reduction from SCC in relation to Waste Recycling.	150
When the sale of the Councils housing stock was completed the agreement included contributions from EHT to fund the Councils pension deficit, this fixed period is due to end in 2019/20.	200
On the joint waste the budget issue indented in relation to waste bin distribution cost (£170,000), Business Rates (£50,000) and a potential TUPE related claim (£50,000).	270
The extension to free Car Parking approved by Cabinet in July 2019, would reduce the potential income compared to the budget.	55
The triennial valuation at the 31 March 2019 will impact the 2020/21 budget, initial indications are that this will	240
The other is a provisional sum to cover additional growth or income reductions before the budget is approved in February 2020. Examples of other factors may include further reductions in SCC funding, pay review for lower pay etc.	150
Total Growth / Reduced Income	**1,065**

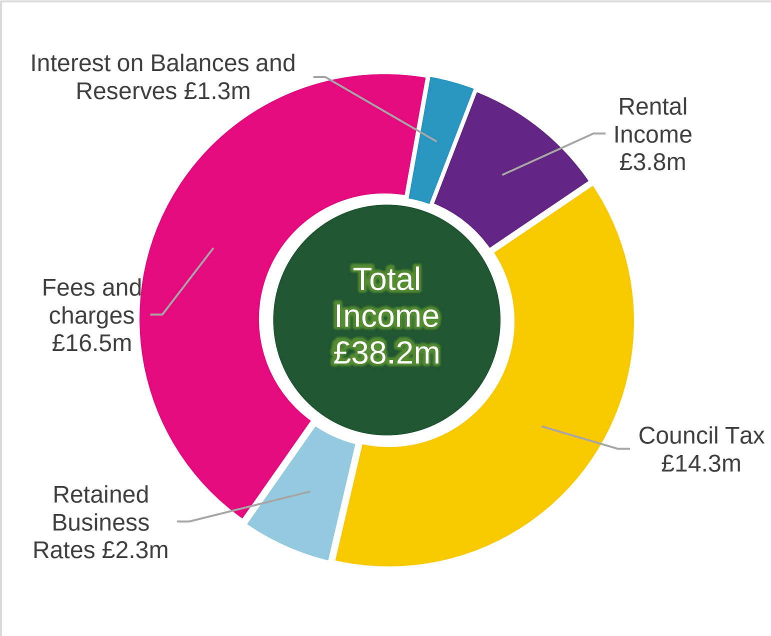
3. Outlook for Savings – 2020/21 to 2022/23

Based on this working assumption, the potential budget reductions required over the medium term are provisionally estimated at around £5 million. For the Council to be completely grant-free, the budget gap is likely to be much higher with the Surrey County Council (SCC) funding reductions and the potential clawback of the Business Rates beyond 2020/21, resulting in a potentially higher budget gap.

The approach to identifying savings in previous years is unlikely to yield any significant savings/income. Having taken £10 million of savings/ additional income over the last 8 years, any further savings will be difficult to identify. It is increasingly difficult to generate further efficiencies without reducing service levels or the "service offer".

Whilst we may be able to identify some 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 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.

Over 80% of the Council's revenue expenditure is funded by a combination of Council Tax (£14.3 million) and F&Cs (£16.5 million).



<u>Savings and Spending Pressures identified 2017/18 – 2019/20</u>

(£'000)	2017/18	2018/19	2019/20
Spending Pressures/Growth	1,302	1,575	1,670
Savings/Additional Income	(1,860)	(1,701)	(714)
Net (Saving)/Growth	(558)	(126)	956

4. Medium Term Financial Strategy - Approach

4.1 Prudent financial management over the last decade 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 reduction in grant funding and constraints imposed by central Government will result in significant adverse long-term consequences for the sustainability of ongoing services.

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 clear outcomes framework, underpinned by annual financial Strategies and spending targets.

4.2 Over the last six years we have used over £6 million of reserves to support the revenue budget. This is in addition to any Business Rates growth used in the budgets. It may get increasingly difficult to gain from any Business Rates growth once the Fair Funding reform is in place. Under the new scheme, we will only benefit from an increase in footprint or tax base of Businesses. The gains made over the last few years have been, as a result, of being a member of a pool or pilot and realising the maximum advantage of a complex system. CIPFA and others have been warning that things will only get worse under the new funding arrangements.

Revenue pressures are increasing whilst our ability to identify budget savings and additional income are quite limited. In addition, any new or additional political priorities and their financial implications have not yet been considered.

4.3 An overview of the Council's outturn for the 2018/19 financial year:

- The General fund revenue outturn for 18/19 was a net overspend of £0.4 million.
- There were a number of unexpected items of expenditure including Traveller encampment costs together with reductions in income levels.
- This was funded by using £0.4 million from the Business Rates.
- First time in many years that the Council has had an overspend.

5. Looking ahead to years 2020–2024

5.1 <u>Strategic context</u>

The Council is operating in an extremely uncertain environment. Arrangements for the Fair Funding Review, which will establish new baselines for local authorities in time for the start of the 75% business rates retention scheme, have been expected to come into force from April 2020, this has now been delayed for one year. The Fair Funding Review and 75% Business Rates retention will signify a fundamental change to the mechanism of local authority funding.

Between 2010 and 2020, councils have already lost almost 60p out of every £1 the Government had provided for services and these reviews may increase the reductions in central governing funding.

These two fundamental changes in local government funding could significantly affect Elmbridge Borough Council (EBC) and given the continued uncertainty over their timing, may not allow enough time for us to respond prior to their implementation. The advice from Local Government bodies and CIPFA to Councils is that Medium Term planning cannot be founded on any assumptions of significant government support and this is even more relevant to Districts and Boroughs, with funding shifting to Councils with Social care responsibilities and based on the new Prime Minister's announcement potentially to the Police.

In order to maintain our strong financial position and financial stability into medium to long term the Council needs to ensure that savings and efficiencies are identified, and fees charged reflect the true cost incurred in providing that service. This combined with a modest Council tax increase will help to have a balanced budget and sufficient level of reserves.

6. Reserves and Risk

Why do Reserves Matter?

There continues to be a considerable amount of attention and debate given to the level of reserves held by local authorities. In previous years the Government might have expressed a view that Councils could be utilising reserves on a temporary basis during the period of austerity. Conversely, as budgets are reduced, risks increase and therefore there is a strong counter view that reserve levels should increase to reflect increased risk.

In guidance to councils the Chartered Institute of Public Finance Accountants (CIPFA) said: "Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed to finance recurrent expenditure."

It stressed that there may be "good reasons" for councils to have used reserves for planned spending but added that "continued depletion of reserves may be a sign of financial stress and being unable to deliver a balanced budget".

Professor Tony Travers of the London School of Economics said: "We did see for many Councils' reserves increased during 2017-18, but the pressure on budgets is not going to go away and for some the need to make further use of reserves is going to be unavoidable.

"Emergencies can happen and sudden increases in spending can be needed. Councils need to be resilient or they end up in the position Northamptonshire was in. However, they don't know their funding position from one year to the next."

In a report on the financial sustainability of councils in 2018 the National Audit Office said: "Reducing reserve levels means that local authorities have less scope to support 'invest to save' programmes, and any delays in delivering savings or unexpected cost pressures have a greater impact on their financial position.

All local authorities are required to hold sufficient unallocated reserves to meet unexpected financial risks.

Use of Reserves

Reserves allow financial uncertainty to be managed. They support authorities in meeting the legal requirement to balance their budgets by providing a resource to cushion the impact of unexpected events or emergencies

In the context of funding reductions, reserves can be used in the short term to offset funding reductions in order to protect services, or reserves can be used to deliver long-term savings by meeting redundancy costs or by funding 'invest to save initiatives.

Authorities hold reserves in two main forms. Unallocated reserves include working balances to manage cash flows and funds to protect budgets against financial uncertainty. Earmarked reserves are held for a specific purpose or project.

Reducing reserve levels means that local authorities have less scope to support 'invest to save' programmes, and any delays in delivering savings or unexpected cost pressures have a greater impact on their financial position.

The Council annually reviews and revises the level and appropriateness of the reserves being held from the Section 151 officer taken in the light of requirements of the Local Government Act 2003 and CIPFA guidance. It is essential that reserves are enough to meet future demands and commitments and to ensure the level of reserves considered the current and future risks faced by the Council. Where reserves are reduced and released these can only be used to fund one off initiatives and not ongoing commitments. The 2019/20 statement of reserves was approved by Council in February 2019.

The main pressures/use on reserves are:

- Financing any overspends
- Financing any sums already committed in the MTFS e.g.: Grant equalisation
- Financing any restructures or revised service arrangements
- Mitigating volatility in income streams e.g. Planning, car park
- Mitigating income volatility on investment property income and expenditure
- Financing one off expenditure
- Financing Council initiatives e.g. Elmbridge Civic Improvement Fund.

These risks are significant, and the Council needs to ensure it has an appropriate level of reserves.

Risks

The projected budget gap over the life of this plan is an estimated position and is subject to change and is based upon a series of assumptions and projections which will be regularly reviewed to ensure they are realistic.

There is therefore a risk that the projections for the budget deficit may prove to be either under or over estimates – primarily due to the number of significant changes to the system for local government both from the Spending Review and the introduction of a 75% Business Rates retention scheme. To mitigate this risk, the MTFS will be updated as appropriate to take account of changing circumstances and new intelligence.
In addition to the significant funding uncertainties, other significant financial planning risks that may affect the projections are likely to be:

- Inflation runs at a much higher rate than the rates assumed
- Borrowing costs are higher than anticipated in business case projections

- Income projects included in budgets may not be achievable due to factors outside of the Council's control e.g. worsening economic outlook, further reduction in investment yields
- Risk of higher than anticipated borrowing costs from rises in rates
- Achievement of 2019/20 and future budget savings
- 2019 Pension Actuarial review impact
- Collection Fund balances
- Unbudgeted cost of Planning appeals
- Risk of exposure of any major legal claims against the Council
- Impact from activities of the new Housing Company
- Impact of any Regeneration programmes
- Impact of financial resilience of SCC and other Partners

7. External Audit Opinion

The Council's external auditors, Grant Thornton as part of their 2018/19 value for money audit evaluated the robustness of the Council's MTFP and budgeting to ensure that resources are deployed to achieve planned and sustainable outcomes for local taxpayers.

They reported their conclusion in their Annual Audit Letter as follows:

"Although adequate arrangements are in place to support your medium-term financial position, we will continue to review any reliance placed on the continued use of reserves for on-going expenditure. As part of this we will continue to review your approach to setting fees & charges and council tax increases. It is important you achieve a strong financial position for the medium term given the funding uncertainties faced by the sector."

8. Timetable for Budget Activity

Date	Activity
September	• Budget Strategy Report to Cabinet and Council
November	• Spending Review update to Cabinet *(no further information is available at this time)*
December	• Setting of Council Tax Base to Council
December	• Provisional Local Government Finance Settlement
January 2020	• Budget Proposals 2020/21
February 2020	• Revenue & Capital Budget proposals to Cabinet & Performance and Finance Panel • Cabinet recommends budget and Council Tax level to Council.
26 February 2020	• Council approves Budget and Council Tax for 2020/21.

The Performance and Finance Panel have prepared this report in light of the discussion which took place at the September meeting. The report has tried to capture the discussion which has taken place and it is hoped that it starts a discussion on whether the Panel can assist with working towards solutions to try and avoid financial challenges in the future.

Environmental/Sustainability Implications:
None for the purposes of this report.

Legal implications:
There are no general legal issues arising from the report. Specific legal issues, if any will be addressed as part of the proposed budget preparations.

The Council has a legal obligation to set a balanced budget each year. The Council Tax, however, must be set by 10 March 2020.

Equality Implications:
In developing budget proposals regard must be had to the Council's duties under the Equality Act 2010 and appropriate steps taken to ensure that (i) the Council meets the requirements of the Public Sector Equality Duties; and (ii) due regard has/is been taken of the likely impact of decisions in terms of equality and discrimination.

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

Background papers:
None for the purposes of this report.

Enclosures/Appendices:
None for the purposes of this report.

Contact details:
Natalie Anderson, Head of Organisational Development – 01372 474111
nanderson@elmbridge.gov.uk
Andrew Cooper, Head of Finance - 01372 474123 acooper@elmbridge.gov.uk