

**Committee: Cabinet**

**Date of meeting: 8 January 2019**

<b>Subject:</b>	Revenue Budget Proposals for 2020/21
<b>Lead Officer:</b>	Head of Finance
<b>Portfolio Holder:</b>	Leader – Councillor S Selleck Resources - Councillor C Sadler
<b>Link to Council Priorities:</b>	All
<b>Exempt information:</b>	None
<b>Delegated status:</b>	For Recommendation to Council on 26 February 2019
<b>Key decision:</b>	N/A

**Executive Summary:**

This report includes initial Budget proposals for consideration and inclusion in the 2020/21 Budget as part of the Annual Budget setting process.

**Recommended: that**

- a) **consider and approve the budget reductions totalling £265,000 for inclusion in the draft budget and service plans for 2020/21;**
- b) **consider the spending pressures identified in paragraph 5., to be included in the 2020/21 draft budget; and**
- c) **note the significant budget gap still remaining and the progress made on developing the budget position for 2020/21.**

**Report:**

**1. Key Issues**

- 1.1 The key issue facing the Council continues to be its ongoing financial sustainability. Initially in December 2015 and confirmed in February 2017 the indication was that in 2019/20 and 2020/21 there will be a negative adjustment of £1.5 million meaning the Council would be expected to pay that sum to the Treasury, effectively making it a “negative RSG”. However, the Government removed the negative RSG in 2019/20 (at a national cost of £150 million, £30 million of which will be received across Surrey). At the time of preparing this report the provisional government settlement figures for 2020/21 are yet to be released. However, there has been an indication from the Conservative government that there will not be a negative RSG in 2020/21.

## 2. National Context

Local financial planning and horizon scanning is inextricably linked to the wider economic and financial context. The level of national debt (relative to GDP) had been at the root of public spending reductions in recent years.

The overall financial situation continues to present the Council with significant challenges and is expected to do so for a number of years. The future budget has increasing costs relating to inflation, demand, and service pressures as well as the possible continued loss of Government grants.

Other factors that will impact the MTFs include external factors such as the interest base rate which is a major influence on the returns that Council can achieve on investment income and also the cost of borrowing. The base rate after being held at 0.5% since March 2009 decreased to 0.25% post Brexit, before being increased to 0.75% in August 2018, although there continues to be significant uncertainty over both the timing and size of any future changes.

It is not clear at this stage as to what the final deal on Brexit will include and the impact this may have on Local Government funding, the deficit reduction programme and future interest rates.

The Council has received a letter from the government indicating that as a result of the election on 12 December 2019 the provisional Local Government Settlement for 2020/21 will not be released until early January 2020.

### Council Tax Levels

One source of funding for the provision of local services is Council Tax, however despite being a local democratically set tax there continues to be centrally imposed constraints for England. A referendum threshold 'cap' continues to apply for 2020/21. However, initial indications are that District Councils will be given the freedom to increase Council Tax levels by £5 per annum or up to 2%, (3% 2019/20) whichever is the highest for the period up to 2020/21.

Given the context of reducing central government funding the Council needs to remain focused on achieving a self-sustaining position by:

- Whilst undertaking engagement with stakeholders and users and taking into account affordability impact on local residents and businesses seeking to ensure our fees and charges reflect the value and cost of the services we provide.
- Modest increases in Council Tax and working within the boundaries set by Government.

- Using economic development and regeneration to encourage growth in the business rates tax base.
- Maximising income streams from Council's existing assets.
- Generating regular rental stream by investing in Property Assets within the Borough.
- Developing income from alternative or sustainable models of delivery.

#### New Homes Bonus Grant (NHB)

In July 2018 the Government consulted on NHB. As part of this consultation the baseline (currently 0.4%) the number of homes to be built before any reward is received. The amount received from NHB will decrease over the medium term. The figure for 2020/21 will be announced when the local government finance settlement is received. To date, a large proportion of the NHB has been used to fund capital expenditure. With the proposed reduction in the level of NHB, the Council will be reliant on capital receipts and/or borrowing to fund any capital expenditure.

### **3. Economic Update**

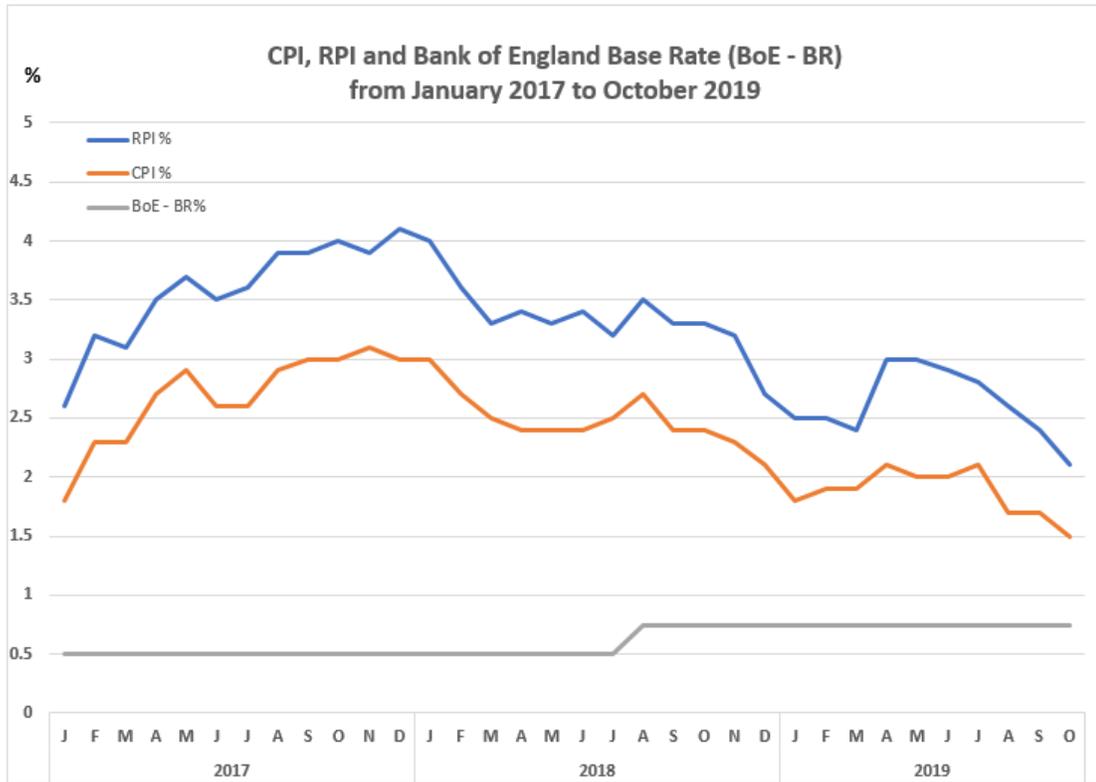
During 2019/20, UK growth has been subdued due to the effects of the global economic downturn and continued uncertainty relating to Brexit, with year-on-year Gross Domestic Product (GDP) growth at the end of Quarter 3 having fallen to 1.0%, being the weakest reading since the first quarter of 2010. Some recovery is expected during 2020 to 1.6%, reaching 2.1% in 2022, but on the assumption the UK succeeds in achieving an orderly withdrawal from the European Union.

In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; however, even if a Conservative Government gains an overall majority in the general election on 12 December, there will still be much uncertainty if the detail of a trade deal is to be negotiated by the current end of the transition period in December 2020.

The general economic downturn has caused the Bank of England's Monetary Policy Committee (MPC) to adopt a more dovish stance so that the November 2019 meeting saw a 7-2 vote in favour of maintaining Base Rate at 0.75%, with the two dissenting members advocating a rate cut.

It is expected that inflation will moderate to 1.25% in Spring 2020 given that, while unit labour costs have been growing at rates above those consistent with meeting the inflation target and core services Consumer Price Index (CPI) inflation has begun to increase somewhat, employment growth has slowed and

pay growth is likely to fall back in the near term. In the second half of the MPC's forecast period, as a significant margin of excess demand emerges, domestic inflationary pressures are expected to build with CPI inflation projected to rise to slightly above 2% towards the end of 2022.



#### 4. Business Rates

The Government initially announced that it intends to move to a position where all business rates growth will be retained by the local government sector. This does not mean that each local authority will keep all off the business rates growth it collects, and it has been confirmed that the system of top-ups and tariffs will continue to enable the government to redistribute business rates collected between local authorities nationally. However, instead of the sector retaining 100% of the Business Rates collected it is now reduced to 75% of the Business Rates collection.

The current position for Elmbridge is that it collects £61 million of business rates each year but retains approximately £2 million (before any share of retained growth). It is expected that a new scheme will come into effect in 2021/22 with the current scheme remaining in place for 2020/21.

## 100% Business Rates Retention Pilot in 2018/19

- 4.1 On 1 September 2017, Department of Communities and Local Government (DCLG) issued an invitation and guidance to local authorities for 100% Business Rates Retention pilots in 2018/19. DCLG invited Councils to come forward with proposals for how the pilot would function in their area, including how the arrangements would be used to both support financial sustainability and promote growth across the whole area, including 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.
- 4.2 The Surrey Pilot bid was successful and Surrey and its Districts were members of the Surrey Pilot for the 2018/19 financial year. The overall benefit to Surrey was in excess of £20 million. The Council gained in the order of £0.8 million as a result of being part of the Pilot.
- 4.3 In late August 2018 the Government announced that it would consider bids for pilots for 2019/20. The Surrey Districts and Boroughs and County submitted a bid on the same basis as the 2018/19 Pilot however was unsuccessful.
- 4.4 The Surrey Districts as part of the bid for a pilot for 2019/20 also submitted a bid for a pooling arrangement. The combination of Districts that gave the optimum benefit to Surrey as a whole was selected for the application. The pool was successful and Surrey have submitted a pool application for 2020/21, however this will not include Elmbridge.

## 5. New Spending Pressures

There have been a number of spending pressures identified in recent months.

The following table provides the updated forecast of the new spending pressures compared to the September 2019 MTFS.

<b>Spending Pressures Forecast 2020/21</b>	<b>£'000</b>														
<p><b>SCC Recycling Income</b> Based on the information received from SCC in September 2018 the income will reduce further by £120,000 in 2020/21. This is an 83% reduction since 2016/17. At this indicative rate of decrease in funding the income stream will all but disappear in 2021/22.</p> <table data-bbox="305 779 1203 1037"> <thead> <tr> <th></th> <th style="text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Budget 2016/17</td> <td style="text-align: right;">813</td> </tr> <tr> <td>Budget 2017/18 – Based on SCC information (Sept 18)</td> <td style="text-align: right;">523</td> </tr> <tr> <td>Budget 2018/19 – Based on SCC Information (Sept 18)</td> <td style="text-align: right;">380</td> </tr> <tr> <td>Budget 2019/20 – Based on SCC Information (Sept 18)</td> <td style="text-align: right;">260</td> </tr> <tr> <td>Budget 2020/21 – Based on SCC Information (Sept 18)</td> <td style="text-align: right;">140</td> </tr> <tr> <td>Budget 2021/22 - TBC</td> <td style="text-align: right;">0</td> </tr> </tbody> </table>		£	Budget 2016/17	813	Budget 2017/18 – Based on SCC information (Sept 18)	523	Budget 2018/19 – Based on SCC Information (Sept 18)	380	Budget 2019/20 – Based on SCC Information (Sept 18)	260	Budget 2020/21 – Based on SCC Information (Sept 18)	140	Budget 2021/22 - TBC	0	120
	£														
Budget 2016/17	813														
Budget 2017/18 – Based on SCC information (Sept 18)	523														
Budget 2018/19 – Based on SCC Information (Sept 18)	380														
Budget 2019/20 – Based on SCC Information (Sept 18)	260														
Budget 2020/21 – Based on SCC Information (Sept 18)	140														
Budget 2021/22 - TBC	0														
<p><b>Sports Hub – Additional Revenue costs</b> The additional net cost to the Council of running the Sports Hub was estimated to be £100,000 which included £120,000 of sponsorship. In 2018/19 only £23,000 was received in sponsorship. To the end of November 2019 only £25,000 has been received and a realistic budget for 2020/21 appears to be £45,000.</p>	75														
<p><b>Leisure Centre Contract – Profit Share</b> As part of the contractual arrangement with Places for People (PfP), the Council is entitled to a profit share. The share of the profit had been steadily increasing and c£330,000 was received in 2018/19 and the budget for 2019/20 was set at this level. In late November the Council received the 2019/20 profit share which is in the region of £270,000. Officers are investigating the reasons for the decrease.</p>	60														
<p><b>Car Parking Income</b> At the December Council, revised set of fees and charges was approved. The report included a potential shortfall due to activity levels of 367,000 and the overall reduction in fees of £97,000 is a total variance to the strategy assumption of £464,000.</p>	464														

<p><b>Planning Income</b></p> <p>The planning income stream is approximately £85,000 below budget at the end of November 2019. The position for this year continues to remain uncertain.</p> <p>However, additional income is being generated from pre-application advice over and above the estimate included in the 2019/20 budget. This is likely to offset the reduction in Development fee income. The final budget for 2020/21 will be reviewed and updated for the February Cabinet report.</p>	TBC
<p><b>Hersham Hall</b></p> <p>Members agreed to re-open the Hersham Village Hall so that it can be used as a Public Hall. The estimated cost of running the Hersham Hall is anticipated to be in the region of £75,000. This is an estimate in respect of costs relating to utilities, caretaking, lift maintenance, Health &amp; Safety checks etc.</p>	75
<p><b>National Pay Award</b></p> <p>The strategy currently includes a pay award of 2% with effect from 1 April 2020. However, it is acknowledged that a 2% pay award might not be sufficient for 2020/21. Work is also being undertaken to bring forward a pay proposal which provides additional pay to employees on lower bands which will be presented to the February Cabinet.</p> <p>As part of the Council's local pay arrangement there is a guarantee that any pay award would match the national pay award. The national pay award from 1 April 2020 is still be negotiated.</p>	TBC
<p><b>Pension</b></p> <p>The triennial review has been carried out as at 1 April 2019, with the findings due for implementation with effect from 1 April 2020. The initial notification received from SCC and the actuary indicate the additional cost in 2020/21 will be c£290,000, £50,000 above the strategy assumption of £240,000.</p>	50
<p><b>Water Hygiene</b></p> <p>To improve water hygiene standards across the organisation and ensure health &amp; safety compliance, the contract that is currently being procured needs to be expanded to include the Centres, Cemeteries, Pavilions and padding pools. The additional cost is estimated to be £55,000 above the current budget provision.</p>	55

The September 2019 MTFS identified £1,065,000 in Growth/ Reduced Income. This included £150,000 for reductions in external funding, recycling income and £55,000 for a reduction in car parking. These are now included above.	(205)
--	-------

<b>Total Spending Pressures (Variation to September MTFS)</b>	<b>694</b>
---	------------

## 6. Other Budget Pressures 2020/21

There are some indications that there will be price increases due to currency fluctuations following Brexit. This is relevant for ICT related expenditure (where prices are linked to the US) and construction & building related work.

Officers are also monitoring the position relating to the Councils income streams including the Council's Property Portfolio. The report to February Cabinet will include the best estimates for 2020/21 based on the figures at the end of December 2019.

## 7. Progress on 2020/21 Budget

### 7.1 Preparation of Revenue Budgets

Cabinet received a report in September 2019 outlining the management's approach to identifying the required savings and budget reductions to meet the 2020/21 budget requirement.

The overarching priority continues to be to maintain existing services. This requires Managers to give careful consideration to operational practices and running costs and to deliver efficiency savings whilst minimising any adverse impact on services to our residents.

The Council is determined to spend Council taxpayers' money prudently and in a manner that is both fair and protects the services that matter to local people.

## 8. Review of Fees & Charges

A review of all charges should be undertaken regularly to ensure they are consistent with the Council's priorities and take account of service objectives, market sensitivity, customer preferences and income generation needs.

The setting of appropriate fees & charges should be an integral part of service planning and improvement. Income from fees & charges is based on estimated demand and fees charged for various services and any proposals

will be considered during the year.

Elsewhere on the agenda is a report from the Overview & Scrutiny Committee with recommendations including a review of setting Fees & Charges to reflect the true cost of the service provided.

## 9. 2020/21 Budget Deficit Update

The savings and additional income identified to date are as follows:

### Budget Savings Proposals – 2020/21

	£'000
A restructure within the Leisure Services team is estimated to save c£45,000 and has resulted in the reduction of the establishment by approximately one full-time equivalent.	45
The Council in December approved an increase in the Fees & Charges for Community Services.	60
Due to an increase in volume of application the income generated from street naming and numbering is expected to be higher than the current year's budget.	10
As part of a review of the Audit & Counter Fraud services of the Council, an additional income of £20,000 for the provision of fraud investigation services to partner organisation is to be generated in 2020/21.	20
Additional income of £90,000 is anticipated from the letting of the nursery at the redevelopment of the Stompond Lane site after allowing for the rent-free period, assuming the lease is agreed in January.	90
Additional income in relation to the Cobham Link based on the current year income.	40
<b>Total Savings</b>	<b>265</b>

## Comparison to the September Strategy

As a result of the savings and budget growth identified in this report the annual funding gap identified for 2020/21 in the MTFs above.

	<b>£'000</b>
Annual Funding Gap (September Strategy assuming negative RSG is delayed by one year)	1,311
Variation in Spending Pressures compared to September Strategy	694
Savings identified to date	<u>(265)</u>
<b>Remaining Funding Gap – December 2019</b>	<b>1,740</b>

The Budget deficit reported at this stage of the budget setting process is significantly higher compared to previous years.

### 10. Capital Strategy

Councils have a legal requirement to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities and this was updated in December 2017. This was primarily to strengthen it in light of concerns regarding some authorities undertaking activities of a more commercial nature, such as significant investments in property and companies primarily for financial benefit.

The updated Code requires that the Council or a body nominated by it, approves an annual Capital Strategy that sets out the long-term context in which both capital expenditure and investment decisions are made. This is:-

- to ensure that the strategy, governance procedures and risk appetite are fully understood by members.
- that the strategy should form part of the authority's integrated revenue, capital, treasury management and balance sheet planning to understand future financial sustainability.
- to include sufficient detail in the strategy to allow members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured to meet legislative requirements on reporting.

The S151 Officer is required to report explicitly on the affordability and risk associated with the capital strategy and where appropriate, may access specialised advice to enable them to reach their conclusions.

The Council already adopted many of the good practices included in the CIPFA

code and in February 2019 it approved a Capital Strategy, this strategy has been reviewed as part of a continuous process of improvement and will form part of the Council Budget report to be considered in February 2020.

## **11. Current Capital Programme**

- 11.1 Capital expenditure is incurred on the acquisition and enhancement of assets. Each year the Council approves a three-year Capital Programme and full Council in February 2019 approved a three-year rolling Programme. Further additions to the Capital Programme will require the approval of Full Council. New schemes will need to specifically consider alternative funding options, taking into account the cost of capital reserves and the impact on the revenue budget.
- 11.2 The Capital Programme consists mainly of capital expenditure on our assets, information technology, leisure, replacement vehicles and housing. The funding required for the Condition Survey of Council Buildings will need to be included in the Capital Programme.
- 11.3 The revenue implications of funding the Capital Programme can have implications for the Council's MTFS. It is important that accurate projections of capital financing costs are made because they can have a significant impact on the revenue budget.
- 11.4 Officers are being asked to undertake a thorough review of current and future years spend projections and proposals for 2020/21 – 2022/23 which will be reported to Council in February 2020 as part of the Budget report.

### **Financial implications:**

Whilst the multi-year settlement gave a fair amount of certainty to plan ahead, the uncertainty of the Fair Funding Review, Business Rates retention combined with the political uncertainty will result in a challenging financial position for the Council.

Continued reliance on reserves for ongoing expenditure is not advisable. If, on the assumption that no further savings or additional income are identified for next year and revenue reserves are used to balance the budget, Members are reminded that for the following year (2021/22) the amount drawn from the reserves for the 2020/21 budget will increase the size of the deficit for 2021/22. Based on the current projections the budget deficit in 2021/22 could well be in excess of £3 million.

### **Environmental/Sustainability Implications:**

None for the purpose of this report.

### **Legal implications:**

None for the purpose of this report.

**Equality Implications:**

As in previous years, impact assessments will be completed for budget proposals and departmental service plans.

**Risk Implications:**

Risk implications are stated throughout the report. It is a statutory requirement to set a balanced budget for 2020/21 by March 2020.

**Community Safety Implications:**

There are no direct community safety implications as part of this report.

**Principal Consultees:**

Council Management Board  
Portfolio Holder for Resources

**Background papers:**

None for the purpose of this report.

**Enclosures/Appendices:**

None for the purpose of this report.

**Contact details:**

Head of Finance, 01372 474123 [acooper@elmbridge.gov.uk](mailto:acooper@elmbridge.gov.uk)