

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

5 FEBRUARY 2019

Title:

**MEDIUM TERM FINANCIAL PLAN 2019/20 – 2021/22
GENERAL FUND BUDGET 2019/20**

**[Wards Affected: All]
[Portfolio Holder: Cllr Ged Hall]**

Summary and purpose:

This report outlines the latest Medium Term Financial Plan Projection and seeks Councillors' approval for the draft General Fund Budget for 2019/20. The Financial Plan sets out the key areas to target to address the significant budget shortfall in the medium term which is estimated to be £3.8million or 36% of the total net service cost by 2022/23.

How this report relates to the Council's Corporate Priorities:

The Council could not deliver the Corporate Priorities without a robust Budget-setting process in place and the Capital Programme proposed supports the priorities.

Equality and Diversity Implications:

An Equality Impact Assessment is being carried out to ensure there are no adverse equality implications arising from the proposed changes to the budget.

Financial implications:

All decisions made with regard to the Budget will impact on Waverley's resources. Full details are included in this report.

Legal implications:

It is the annual responsibility of the Full Council to approve the Budget and set the Council Tax (Constitution Part 3:B:6-7, p. 40). There are otherwise no direct legal implications as a result of the recommendations of this report.

Introduction

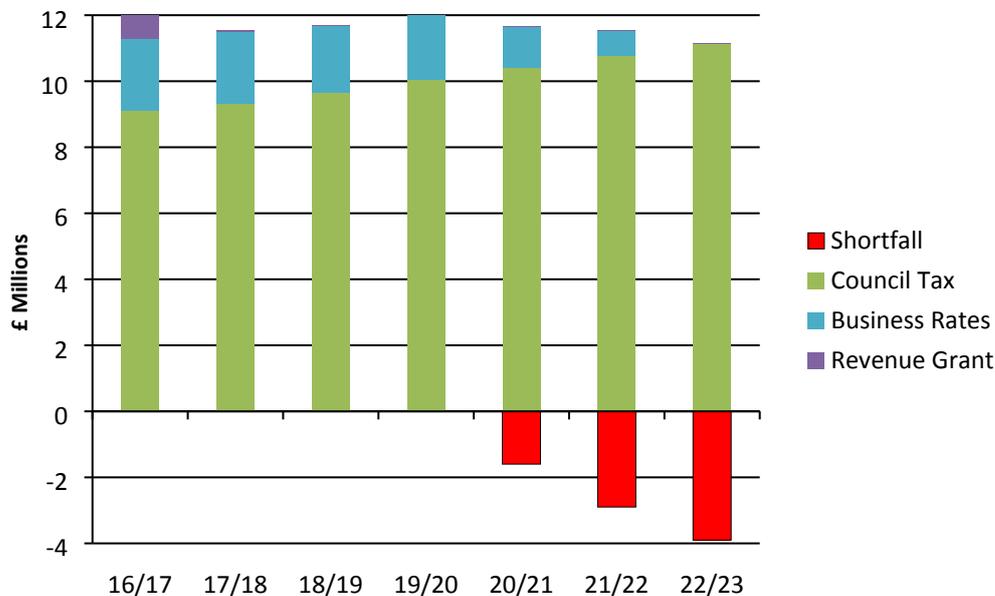
1. This report presents the Council's Medium Term Financial Plan (MTFP) and the latest position on the 2019/20 draft General Fund Budget, including an outline of the financial background, key financial and topical issues, and details of savings and growth proposals.
2. This report contains the following Annexes:
 - Annexe 1 – Medium Term Financial Plan projection
 - Annexe 2 - draft General Fund Budget Summary 2019/20

- Annexe 3 – statement of key variations from 2018/19 budget
- Annexe 4 – draft Fees & Charges for 2019/20
- Annexe 5 – schedule of projected reserves and balances
- Annexe 6 – draft Capital Programme

Medium Term Financial Plan

3. Annexe 1 shows the latest projections of changes to the 2019/20 General Fund revenue budget over the following 3 years and highlights the indicative budget shortfall of £3.8million.
4. These projections reflect the virtual elimination of central government funding, increasing customer demand, prudent council tax and price increases, inflation on contracts, and the pressures of Waverley’s demographic profile (with a higher proportion of older people than elsewhere).

Funding the revenue budget



5. Emerging Budget Pressures in medium-term

- Achieving all savings/income targets in the 2019/20 budget
- Business rates on WBC properties
- Surrey County Council – waste grants/grounds maintenance and other cost-transfers
- Planning Appeals and Judicial Review costs
- Pay inflation and pay benchmarking - addressing hard-to-recruit areas
- Planning and Building Control income must be maintained or increased

6. Opportunities

- Developing ongoing income from property through the appropriate and robust governance of the Investment Advisory Board
- Developing a more commercial culture – cost conscious and better understanding of business property income

- Efficiency programme including customer service review and targeted system thinking reviews
- Apprenticeship levy – maximise credit through training programme
- Procurement – cost savings from better procurement and commissioning
- Developing major projects to generate income from Waverley owned assets including Brightwells, South Street Car Park and Weyhill Car Park
- Developing further partnership working to deliver public services at lower cost

7. Risks

- The unknown economic impact of Brexit on inflation and interest rates, mitigated by scenario planning as the transition is implemented
- Income levels from commercial and economy led sources (e.g. Building Control, Planning), mitigated by a new commercialisation programme and evidence of market conditions
- The costs of borrowing to fund capital and property acquisitions, mitigated by adopting a clear and prudent acquisition strategy and robust governance, informed by CIPFA (Chartered Institute of Public Finance and Accountancy) and Government guidance and regulations, and appropriate use of low interest options available to public services
- Failure to ensure risk balanced assessment of adequate financial provision for known and unforeseen pressures in the future resulting in diversion of reserves, mitigated by careful planning during each year's budget setting process
- The level of Government Grant/Business Rates Income beyond 2019/20 under the new financial regime, mitigated by joint lobbying across local authorities
- Failure to ensure adequate levels of balances to meet known and unforeseen pressures in the future, particularly to fund capital investment and asset maintenance, mitigated by regular monitoring and policy of not using one-off resources to fund recurring costs.

Budget Strategy

8. Waverley's budget strategy is to address the budget shortfall in the medium term in the following ways:
 - Achieve cost savings from better procurement of major contracts and supplies and services.
 - Deliver increased income from property, including careful new acquisitions and investment in existing assets
 - New and increased income from fees and charges
 - Cost savings from business transformation including increased efficiency, major customer service project, partnerships, systems thinking and invest-to-save projects
 - Use Waverley's successful participation in the Government's business rates pilot to achieve the best funding outcome for this Council and for Surrey
 - Approve a Council tax increase each year up to the maximum allowable by the Government
9. Annexe 1 sets targets for each of these themes over the next three years. Heads of Service will be required to identify specific actions and proposals to achieve these targets. These proposals will be subject to consideration by Overview and Scrutiny

committees and consultations will be undertaken as appropriate throughout the year before being submitted to Council for approval.

Budget Setting 2019/20

Budget Review

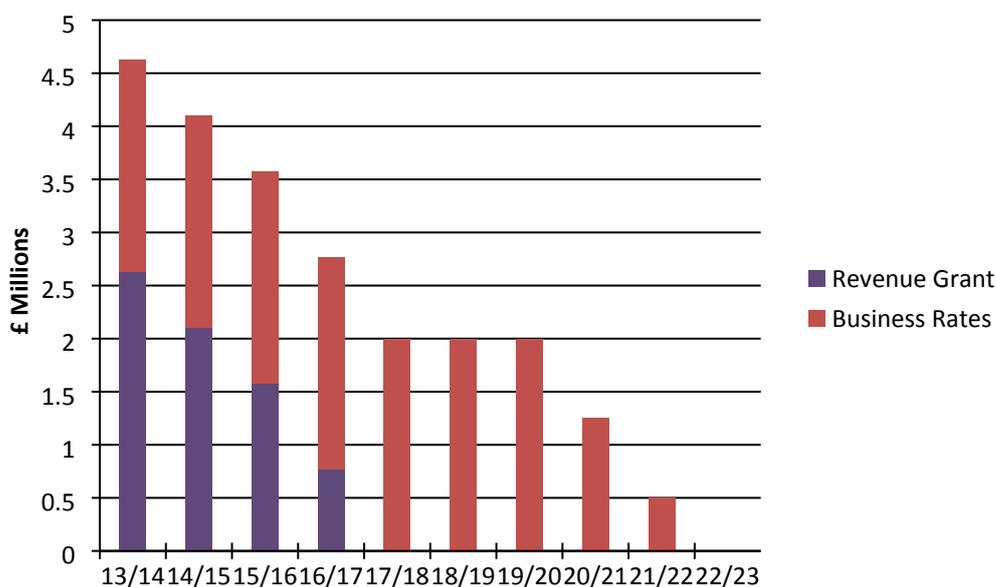
10. At the September 2017 meeting the Value for Money and Customer Services Overview & Scrutiny Committee expressed the view that a radical re-think of how services, front line and support, are delivered was needed to meet the anticipated long term financial challenges facing the Council. Following this, a Budget Strategy Working Group (BSWG) was agreed by the Overview & Scrutiny Co-ordinating Board in September 2017 and established in March 2018.
11. The BSWG has both a strategic and a scrutiny role. Strategically, analysing and understanding Waverley's longer-term General Fund financial position to 2022/23 given expected future deficits caused by reductions in revenue forecasted in the MTFP and consider what realistic actions may be taken in terms of increasing income and reducing costs to close the expected gap.
12. The working group met all Heads of Service and gained a detailed understanding of the range of General Fund services provided, service delivery costs and any associated income streams. All income streams were reviewed in terms of level of inherent risk and potential for future change in either direction.
13. The working group supports the Financial Plan projection that, over the review period to 2022/23 and beyond, significant reductions in service costs will need to be achieved if the Council is to be able to adhere to a balanced budget and still provide quality local public services. This is in the light of the expected loss of retained business rates funding from 2020/21, the potential impact of Surrey County Council's budget position and the likely excess of service cost inflation over permitted Council Tax increases. The latest projection is set out in Annexe 1 which shows a shortfall of £3.8m.
14. Service cost inflation has been projected at 2% CPI equating to £0.5m per year. Before external cost pressures are accounted for, the Council is not able to stand still financially due to the government's restriction on Council Tax increases at 3% equating to £0.290m. As government funding has fallen away, the Council has become increasingly reliant upon Council Tax funding which is a relatively small proportion of the overall cost base. It is therefore vital that the maximum available increase is made each year.

Revenue Support Grant

15. Waverley's Revenue Support Grant from the government is now zero. There has been a dramatic reduction over the last 6-years from £3.8m in 2012/13.
16. The government guaranteed the Council £2m in business rates until 2019/20 as part of the changes in the business rates retention scheme introduced in 2013/14. From 2020/21 they intended to implement a revised business rates scheme based upon the fair funding review. In 2019/2020 the Government intended to apply an annual

'negative grant' or levy of some £800,000 to Waverley. This was a legally effective way to reduce the retained business rates without breaking the guarantee. The Government indicated that this was a necessary step in balancing their national local government funding given the proposed changes to business rate framework. Following the Chancellor's budget in November 2018, the Government announced that it would fund the first year only of negative grant from its own share of Business Rates and this was confirmed in the finance settlement announced in December. This has given Waverley a temporary reprieve and has helped achieve a balanced budget in 2019/20 without the major service impact that was predicted.

Loss of Revenue Grant and Business Rates



New Homes Bonus

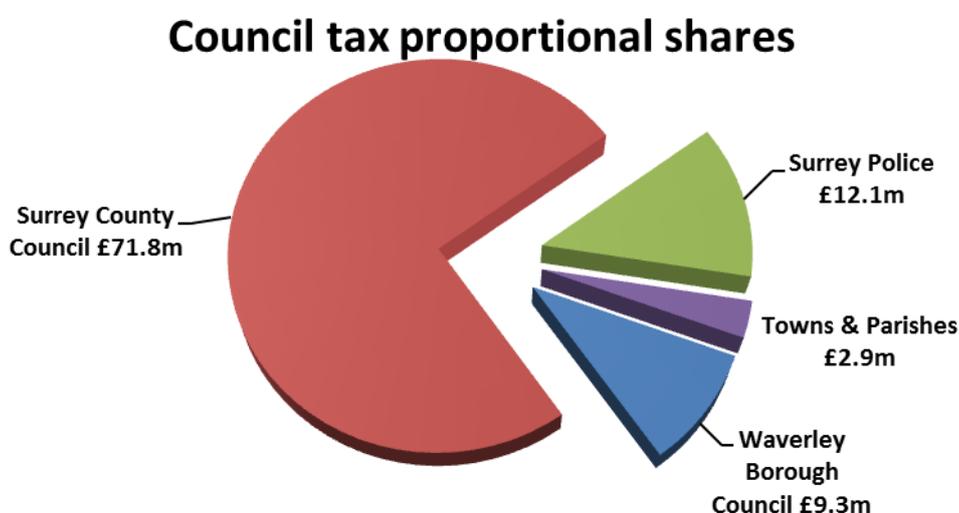
17. Last year it was reported that there was a considerable threat to the future level of payments to be made under the New Homes Bonus (NHB). Government announced its future plans for the NHB alongside the draft finance settlement and the new proposals reduced the 2017/18 forecast figure by £0.650m and reduced the forecast figure for the 3-year period 2017-2020 by £3.5million. This is a significant reduction for Waverley and is the result of the Government curtailing payments made in previous years that were promised for 6 years, and from introducing a 'growth threshold' of 0.4% below which NHB is no longer paid.
18. Waverley's Financial Plan policy is to transfer all NHB received into the Property Investment Fund, which is overseen by the Investment Advisory Board, rather than use it to balance the budget. However, any changes in the NHB has a direct impact on the ability to generate income from investments. In the 2019/20 finance settlement the Government confirmed it is not making changes to the NHB calculation but will continue to reduce the legacy payments previously guaranteed. There is no guarantee that NHB will continue beyond 2019/20 so it cannot be relied on in future funding plans.

Business Rates Funding

19. Waverley collects £37m of business rates in a year and retains £2m of this to support its General Fund services (5.4%). The Government is developing proposals to change local authority business rate funding and has launched a consultation on changes to take effect from 2020/21. Like many other councils in the South East, Waverley's medium term financial plan assumes that these changes will result in retained business rates funding being removed completely by 2023.

Council Tax

20. Waverley retains approximately 10% of the council tax collected in the Borough with the balance being split as per the chart below. The Government has recently confirmed that it will continue to allow Waverley to increase its council tax by up to 3% on its Band D charge in 2019/20. In the light of the significant projected budget shortfall in the medium term, it is proposed to have a working assumption of 3% increases for the foreseeable future.



Fees and Charges

21. Fees and charges have been reviewed as part of the budget process. Some fees and charges are statutory but for those determined by Waverley some inflationary increases are proposed for 2019/20 where appropriate. Many charges have been increased in line with CPI inflation. Details of the proposed changes to fees and charges from 1 April 2019 are included at [Annexe 4](#). Car park charges have been frozen at their current level.
22. In addition to the above increases, it is proposed that Green Waste Charges are increased by £5 to make the total charge £65. This follows some benchmarking of other local green waste services which suggest the market will accommodate an increased charge.
23. Proposed licensing fees & charges are included in Annexe 4, of which some are increased by inflation and some are unchanged. All of these fees are subject to consideration by the licensing regulatory committee of the consultation responses.

Inflation

24. The Council's main contracts are indexed to the Consumer Price Index (CPI). An inflationary amount has been assumed for all General Fund budgets where it is unavoidable with projections being in line with the Government's longer term assumptions. In terms of the staff pay award for 2019/20, which is also applied to Councillors' allowances, taking into account national cost-of-living inflation figures, current market and salary data, and other councils' pay awards in recent years, the Joint Negotiating Committee agreed to recommend a 2.3% cost-of-living pay award. The total cost of £400,000 falls approximately £290,000 on the General Fund budget and £110,000 on the HRA budget. These figures, as well as other inflation commitments, are incorporated within the draft balanced budget. Therefore, in recommending to Council the draft Budget, the Executive would be approving the pay award (Constitution Part 3: 3(o))

Revenue Contribution to Capital

25. The core funding for the General Fund Capital Programme is from Revenue Contributions via the Revenue Reserve Fund. The Budget proposals include a Contribution to Capital from the Revenue Budget of £1.05m and, as explained above, the New Homes Bonus of £1.16m is currently identified to be earmarked in the property investment fund.

2019/20 Draft Revenue Budget

26. The General Fund Summary is shown at Annexe 2. A breakdown of the main changes in the 2019/20 draft budget compared to 2018/19 latest approved budget which total £0.3m is included at Annexe 3. Heads of Service and spending officers have examined operational and staffing budgets in detail and minor changes have been made to detailed budget lines.
27. In February 2018 the Council approved the forward plan showing a projection of £1.5m budget shortfall in 2019/2020. A balanced budget is now presented for consideration largely as a result of the following:
- Government delaying impact of negative grant.
 - Additional interest generated from property and treasury investments.
 - Successful outcome of waste tendering.
 - Containing overall staff budget and other costs within previous year's envelope.
 - An assumed council tax increase of 2.99%.

There are no proposed cuts to services or reductions in funding for community organisations and no car park charge increases included in the draft 2019/20 general fund budget.

Local Government Act 2003 – Financial Administration

28. The Local Government Act 2003 formally introduced a number of specific sections covering:
- a. **Budget calculations: report on robustness of estimates;**

b. Adequacy of reserves; and
c. Budget monitoring.

29. The sections were introduced to ensure sound financial management across all local authorities. Waverley's budget has always complied with best financial management practice. Prudent allowance has always been made for risk and uncertainties in budgets. Budgets are monitored by officers and reported to Members on a monthly basis supplemented by monthly exception reports. Waverley's financial management continues to receive favourable comments from its external auditors.

a. The Robustness of the Estimates

30. Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within Waverley's budgets. Waverley's Financial Plan, together with information presented to members at the October briefings and subsequent reports, demonstrates the financial challenges to Waverley in the future.

31. The key Financial Plan issues for the General Fund include:

- Increased risk from changes in business rate income due to downward valuations and loss of businesses in the Borough;
- Major contract renewal in 2019 –grounds maintenance, etc.
- Future of business rate and new homes bonus funding; and
- Rising inflation and low interest rates.

32. In addition to the detailed scrutiny of the Budget by officers, Councillors have taken the opportunity through the Executive and Overview and Scrutiny process to:

- I. Critically examine budget variations
- II. Consider the outcome of the budget challenge process and reviewed the higher value proposals coming forward

33. In view of the level of awareness amongst Members and the action taken to produce Waverley's Budget for 2019/20, the Section 151 Officer is satisfied with the robustness of the estimates presented. The Section 151 Officer is confident that overall the Budget is prudent especially in view of the track record of achievement of substantial budgeted savings over the past years.

b. Adequacy of Reserves

34. Waverley maintains a number of reserves, which are detailed in the Financial Plan. Waverley aims to maintain a prudent level of balances to support revenue spending and finance unforeseen events. The major reserves for General Fund purposes are the General Fund Working Balance, the Revenue Reserve Fund and the Property Investment Fund.

35. The General Fund balance supports fluctuations in normal business, e.g. unexpected changes in inflation or interest rates, higher than anticipated expenditure or loss of income, and spending on unforeseen events. The Revenue Reserve is used to

finance capital expenditure and one-off costs and the property fund is to finance property investment/acquisition opportunities. It is essential that adequate balances are available to meet these and unforeseen costs.

36. The General Fund Working Balance and the Revenue Reserve Fund for the four year period is shown on Annexe 5, along with other key balances. It is the view of the Strategic Director/Section 151 Officer that a level of £3.2m on the General Fund Working Balance, which is effectively 10% of the gross General Fund Budget or equivalent to just over one month's service spending, satisfies the adequacy requirements of the Local Government Act 2003.
37. The main risk continues to be whether the reserve will be required to meet the costs of defending the Council in any appeals or Judicial Review proceedings. In the event that these costs exceed the available funding, the Council will need to divert some of the funding from the Property Investment Fund.
38. In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered prudent.

c. Budget Monitoring

39. It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring in 2018/19 shows that the Council has mostly delivered the savings assumed in the Budget which currently looks to be achieved by year end, with major expenditure items including pay and contract spend being on track. The latest quarter 3 monitoring summary statement will be reported to the O & S committees in February as part of the performance management report. This will also be available for circulation at the 22nd January VFM O & S meeting for information.

Council Tax Levels

40. Under the Local Government Finance Act 1992 each billing authority and precepting authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive a referendum must be held in relation to that amount. For 2019/20, the relevant basic amount of council tax of an authority is excessive if it is more than 2.99% above the 2018/19 amount.
41. It is recommended that, given the significant budget shortfall in 2019/20 and projected for subsequent years, Waverley's council tax is increased by the maximum allowed in 2019/20. This would generate an additional £290,000 income. This increase would add £5.30, 10pence per week, to the annual charge for a Band D property.

Council Tax Support Scheme

42. The Council Tax Support Scheme, which replaced council tax benefit on 1st April 2013, is reviewed annually. A range of assistance was introduced by Waverley to assist claimants and these schemes are actively promoted. A hardship fund was created to support claimants and the qualifying criteria revised to encourage take up.

Discretionary Housing Payments are also available, and Waverley officers are proactively supporting households that are most affected by welfare reforms. Experience shows that the current Council Tax Support Scheme remains successful as evidenced by the gradual reduction in the number of claimants and the consistently low take up of discretionary support. It is, therefore, recommended that the current scheme remains unchanged for 2019/20.

General Fund Capital

43. Each year, the Council reviews its three-year Capital Programme and agrees the budgets to be included within the Budget for the year ahead. The overall parameters for the Capital Programme are set out within the Council's Financial Plan.
44. The proposed 2019/20 Capital Programme amounts to £3million as shown at Annexe 6 to this report. A £2m capital programme was approved for 2018/19 plus slippage from the previous year and, whilst this is not subject to approval as part of this report, it should be noted that the majority of this spend is on track and with the exception of the Frensham scheme, major slippage to 19/20 is not expected.
45. In the light of the level of underspend and rescheduling of General Fund capital schemes in recent years, and following a major review led by Value for Money Overview & Scrutiny Committee, a new and more rigorous bidding and monitoring process for General Fund capital schemes has been implemented. Including:
 - A bidding process throughout the year, including a requirement for delivery milestones and cash flow projections.
 - A rolling reserve list of schemes that are over and above the available funding but can be implemented by agreement of the Director of Finance and The Portfolio Holder for Finance if sufficient funds become available in the year.
 - Terminating or postponing schemes that are not delivering to agreed timescales in the year and reallocating resources to new or reserve schemes.
 - The ability to bid for additional funding for capital spend if a return or cost saving is achieved that meets the Investment Advisory Board criteria.

Observations from the Value for Money and Customer Service Overview and Scrutiny Committee

46. The VfM and Customer Service O&S Committee considered this report at its meeting on 22 January 2019 and made the following observations.
 - The Committee was pleased to note that a balanced budget was presented, and thanked officers and Members for their hard work throughout the year which had helped to address a significant funding gap for 2019/20. However it was heard that, given the projected £3.8m shortfall over the next three years, further reductions in service costs would need to be delivered going forward.
 - The Committee welcomed the proposal to maintain the current level of Community Grant funding for 2019/20 as well as not increasing car parking charges.

- Some Members felt that allocating New Homes Bonus income specifically to the Property Investment Fund was too narrow and suggested that, while it should not be used to balance the revenue budget, other investment opportunities for this money could also be considered.
- There were some further queries in relation to borrowing for investment, however overall the Committee was satisfied that the Council had very clear investment criteria and generally took a cautious approach to property investment, turning down opportunities which were not appropriate.
- In relation to fees and charges, the Committee commented that without knowing the demand for each service, it was difficult to understand the relevant value for each item. The Committee suggested that a table showing the revenue from the individual fees and charges should be included with the Budget papers.
- It was also suggested that further work be done on benchmarking fees and charges with other Local Authorities as well as commercial providers to gain a better understanding of the market value for each service. The Committee proposed that scrutiny of the basis for individual fees and charges should be a workstream for the Value for Money and Customer Service O&S Committee in the next Council year.

47. The Committee endorsed recommendations 1 – 2 and 4 – 5 as set out in the report. In relation to recommendation 3, the Committee recommended that a schedule be added to the fees and charges document in future, showing the volume of demand for each service. It was also recommended that a comprehensive review of fees and charges be undertaken over the coming year to ensure that these appropriately reflected the market.

Recommendation

It is recommended that the Executive, after considering comments from the Value for Money Overview & Scrutiny Committee, makes the following recommendations to Council, to:

1. agree a 2.99% increase in Waverley's element of Council Tax for 2019/2020;
2. agree to make no change to the Council's existing Council Tax Support Scheme;
3. approve the proposed Fees and Charges as shown at Annexe 4;
4. approve the General Fund Budget for 2019/20 incorporating the pay award; and
5. approve the 2019/20 General Fund Capital Programme as shown at Annexe 6.

Background Papers

Provisional Local Government Finance Settlement 2019/20; Financial Plan 2017/18 – 2020/21; Revenue Budget 2018/19.

CONTACT OFFICERS:

Name: Graeme Clark

Telephone: 01483 523099

Email: graeme.clark@waverley.gov.uk

Name: Peter Vickers

Telephone: 01483 523539

Email: peter.vickers@waverley.gov.uk

Name: Rosie Plaistowe-Melham

Telephone: 01483 523255

Email: rosie.plaistowe@waverley.gov.uk