WAVERLEY BOROUGH COUNCIL

VALUE FOR MONEY AND CUSTOMER SERVICE O&S

18 NOVEMBER 2019

Title:

BUDGET STRATEGY WORKING GROUP INTERIM REPORT

Summary and purpose:

This report summarises the findings of the Budget Strategy Working Group (BSWG) after completing work-streams 1 and 3 set out the in review's scoping document (March 2018 VFM CS O&S agenda). The report relates to Waverley Borough Council's (WBC) General Fund and does not apply to the Housing Revenue Account (HRA).

The purpose of the report is to share the BSWG's observations on the Medium Term Financial Plan (MTFP), informed by the BSWG's work with Heads of Service and finance officers. The MTFP covers the years 2020/21 to 2022/23. The BSWG has developed a spreadsheet model of the MTFP to show the effect of projected cost and income factors and their timings on the state of WBC's General Fund revenue account from the current year to 2023/24 (one year beyond the end of the MTFP) before and after transfer of reserves. The current version of the model does not include a detailed analysis of the impact of transformation costs or costs associated with any climate change initiatives being worked up.

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

This report relates to the Council's priorities as a balanced budget and Medium Term Financial Plan ensures Waverley is financially sound.

Equality and Diversity Implications:

There are no direct equality and diversity implications in this report. As the work of the Group is taken forward, equality impact assessments will be carried out, as appropriate, to meet the requirements of the Public Sector Equality Duty under the Equality Act 2010.

Financial Implications:

The financial implications are contained within the report.

Legal Implications:

There are no direct legal implications associated with this report.

1. Background

1.1 WBC is expecting the loss of £2m of retained business rates over the next four years and the further loss of most of its recycling credits income from Surrey County Council (SCC) (these were £1m in 2016/17 and will fall to £350k in 2020/21 (assuming tonnages are as expected)).

1.2 WBC's ability to raise Council Tax without holding a referendum is currently capped at 2.99% which equates to £300k p.a. Inflationary pressures affecting mainly staff pay and long-term contracted expenditure is forecast to be £550k p.a., thereby creating an ongoing or structural deficit of £250k p.a. However, the government has recently indicated that the ability to raise Council Tax will be reduced to 2% p.a. from 2020/21 which will increase the structural deficit to £350k p.a.

1.3 In the absence of corrective action and assuming the maintenance of current levels of transfers to reserves (approximately £1.7m), the MTFP projects General Fund revenue account deficits of £1.36m in 2020/21, £2.63m in 2021/22, £3.9m in 2022/23 and £4.9m in 2023/24. In other words, the situation is expected to worsen by about £1.3m each year for the three Plan years and then by a further £1m in 2023/24.

1.4 If it were possible and lawful to fund these deficits from reserves, which it is not, the reserves would be reduced by £12.8m by the end of 2023/24.

1.5 The MTFP also sets out high-level proposals, consisting of both cost reductions and income generation, to offset the adverse factors listed above. Comment on the viability and timing of these proposals is set out below.

2. Structure of the report

2.1 The report follows the structure of the ledger which divides WBC's expenditure into four types (staff salaries, non-salary staff costs, long-term contracted expenditure and other expenditure) and its income into two types (fees & charges and other income).

2.2 The report should be read with reference to the attached spreadsheet (appendix 1) to get the clearest picture. The underlying purpose of the spreadsheet is to convert the MTFP from a high-level document into a much more detailed model. There are four tabs or "views" – View 1, View 2, View 3 and Evo. Evo shows how the ledger structure has been evolved into the structure used in the View tabs. Each View shows the progress of the GF revenue budget from 2019/20 to 2023/24 based on different assumptions about costs and income. Each view assumes that the current year 2019/20 will have an outturn of zero after transfers to reserves.

2.3 Paragraphs 4 to 9 comment in turn on the items in the four cost types and two income types which appear in the MTFP and highlights those items which the BSWG believe will merit further scrutiny as the budget setting process proceeds.

2.4 Paragraph 10 refers to the role of transfers to reserves in WBC's GF revenue model.

2.5 Paragraph 11 contains an important qualification about the information set out in View 3 at this early stage of the budget-setting process.

3. The spreadsheet

3.1 The spreadsheet (appendix 1) is derived from the WBC ledger and seeks to present the same information in a way that is easier to understand for those not deeply familiar with local government accounting.

3.2 View 1 represents the “worst case” of the downside items only as set out on slide 3 of the latest MTFP presentation (appendix 2). It shows deficits of £1.36m in 2020/21, £2.63m in 2021/22, £3.91m in 2022/23 and, in addition, £4.89m in 2023/24.

3.3 View 2 adopts the View 1 data with the addition of the six cost or income proposals set out on slide 7 of the MTFP presentation. The MTFP proposals are expressed generally and do not specify the service areas which would be affected. View 2 therefore allocates the effect of the proposals by arbitrarily allocating one-third of each proposal in each year from 2020/21 to 20 22/23 to five of the service areas as placeholders and the Council Tax increase to the Council Tax line. This is simply to provide clarity to the reader. Each proposed change is enclosed in a box. Brief commentary on these proposals is set out below Table 2.1.2.

3.4 View 3 is an amended version of View 2 which contains the BSWG’s amendments of the data in View 2 and a possible way in which the MTFP proposals might be implemented in practice. Brief commentary on these proposals is set out below each of the tables representing 2020/21 onwards. View 3 should be seen as an early stage of a project that will evolve as the budget-setting procedure advances.

4. <u>General Fund salary costs (2019/20 budget = £13m)</u>

4.1 Inflation-linked increases mainly affecting salary costs and contracted expenditure are modelled in the MTFP by increasing them in total by £550k in each of the three Plan years.

4.2 WBC has tended to generate an “establishment vacancy factor” by underspending modestly on its salaries budget due to the combination of three factors. First, there is significant turnover (over 20% p.a.) in the more junior roles and this “churn” is associated with delays of up to two months in filling vacancies. A crude estimate of the savings for all staff is 400 FTE x 20% x £25k x 2/12 = £333k. Second, some posts are kept vacant for longer as part of a discipline to avoid losing control of salary costs. These generate additional savings. However, third, WBC often has to use agency staff when vital professional posts prove hard to fill (typically in Planning, Housing and sometimes in Building Control and Environmental Monitoring). Such staff are typically 25% more expensive than directly-employed staff. In 2017/18 and 2018/19, WBC spent £600k and £900k respectively on agency staff. The net effect of all three factors is that the salaries budget showed positive (underspend) variance of about £150k in 2017/18 and 2018/19. The 2019/20 salaries budget assumes full establishment but includes a £280k General Fund establishment vacancy factor provision to reflect this underspend tendency.

4.3 From the MTFP modelling perspective, the position is complicated by the fact that two elements of the MTFP proposals, namely the Cost Review and the Business Transformation programme, inevitably overlap with the establishment vacancy factor and with each other. Double-counting of savings is very probable but the extent is currently hard to estimate. However, it is expected that the Head of Finance will ensure that any double counting is eliminated in the budgets for all Plan years.

4.4 The Cost Review proposal seeks to save £500k p.a., reached within the Plan years. Heads of Service have already been requested to seek savings equal to 5% of their “controllable costs” and to report their proposals to the SMT by 31 October 2019.

They are restricted to savings in salary costs, non-salary staff-costs and non-contractual expenditure. Long-term contractual expenditure and any form of income is outside the scope. This exercise should in theory generate about £850k (5% of £17m) but the realistic SMT ambition is to achieve £500k once double counting has been eliminated. View 3 assumes that this will be achieved as to £250k in 2020/21 and a further £250k in 2021/22. As referred to in 4.3, there is a significant risk of double-counting and View 3 reflects this by reducing the establishment vacancy factor in 2020/21 to £150k and assuming that it does not occur at all in later Plan years.

4.5 The Business Transformation programme is intended to save almost £1m in annual costs. It consists of ten projects of which the Customer Services Project is the largest. This involves the implementation of two new pieces of software, a Master Data Manager (MDM) and a Customer Relationship Management (CRM) system. The MDM has been purchased and the CRM will be purchased in early 2020. The officers involved expect that they will know by April 2020 whether the implementation of the CRM is going smoothly. At this stage, a combination of prudence and the awareness of how often major software-based projects are subject to delays and cost overruns in both the public and private sectors, suggests that no net savings are likely to be realised in 2020/21. In addition, the BSWG has been informed that the implementation staff costs are to be funded by early savings rather than from reserves. View 3 currently reflects these considerations by reducing the total savings to be achieved to £750k, with £400k achieved in 2021/22 and £350k achieved in 2022/23.

4.6 Staff cost modelling in View 3 is relatively simplistic. Cost levels for each service area in each Plan year are evolved solely from the 2019/20 budget numbers, do not include any annual increases (to avoid any inappropriate implications for the next staff pay round being made in a public document) and, most significantly, do not reflect headcount changes in service areas. These shortcomings will need to be addressed in future model versions which will be published on an exempt basis.

5. <u>Non-salary staff costs (2019/20 budget = £0.5m (excluding pension back funding item))</u>

Staff car allowance payments (£144k), mileage payments (£115k) and training (£126k) are the main components. Staff travel payments are the subject of one of the Business Transformation projects. An officer group is looking at alternative models for travel arrangements which will cover the Council's own fleet and include consideration of electric vehicles.

6. <u>Non-(long-term) contractual expenditure (2019/20 budget = £2.8m)</u>

Advance rent payments by the Homelessness Prevention service have risen sharply in 2017/18 (budget £182k, actual £387k) and 2018/19 (budget £202k, actual £605k) mainly because private sector landlords now require six months' advance rent instead of one or two months as was the case until 2016/17. Experience shows that over 70% of such payments are repaid by the tenants (who have the incentive of needing to clear all debts to WBC before they can be added to the WBC social housing list). However, the prospect of writing off losses of 25-30% of a growing advance rent total should not be ignored and will be modelled by the Head of Finance and Head of Housing Delivery and Communities.

7. (Long term) contractual expenditure (2019/20 budget = £15m including £1m utilities)

7.1 This head of expenditure is generally only relevant to budget strategy in the context of obtaining procurement savings when a contract ends and retendering occurs. This was achieved in relation to the retendering of the waste collection and street cleaning contract and is expected to deliver savings in connection with other long-term contracts (such as the printer equipment repair contract).

7.2 Whilst the recent waste collection contract with Biffa is anticipated to save about £100k p.a., additional net short term costs are now expected to arise due to recent changes in the location to which recycling materials will be delivered. In the last five months of 2019/20, the saving of £43k (£100k x 5/12) is now expected to be offset by a cost of £100k and hence be converted into an additional cost of £57k. Extra costs of £100k p.a. are expected to be incurred in 2020/21 and in the first quarter of 2021/22.

8. Fees and charges (2019/20 budget = £15m excluding Council Tax receipts)

8.1 Eight sources represent 90% of the budget for total fees and charges income, namely parking (£4.95m), Waverley Training Services (£3.75m), planning fees (£1.7m), garden waste fees (£0.9m), leisure centre management fees (£0.7m), building control income (£0.6m), Careline (£0.47m) and land charges (£0.4m). WTS income is a government grant and would arguably be better located in the other income column.

8.2 Following discussions with the relevant Heads of Service, the BSWG believes that car parking income is the only source of fees and charges than can make a significant contribution. A 10% increase following the car parking review would raise about £500k from 2020/21 and could be followed by a 5% increase raising a further £250k in 2022/23. There is merit in adopting a consistent policy of reviewing parking charges every two years.

8.3 A planned investment of £3.5m in the Farnham and Godalming leisure centres has been delayed. This was expected to deliver increased management fee and profit share income of £200k p.a. under the current contract with Places Leisure, WBC's leisure centre operator, rising to £350k p.a. once a new leisure centre management contract applies from July 2023. It now seems doubtful that any increased income will be received until 2022/23.

8.4 The Godalming project requires the expansion of the car park by taking over a section of a redundant playing field. This requires the consent of the Secretary of State which in turn needs the sponsorship of SCC as the county education authority and the support of Broadwater School. SCC have now submitted the consent application with the support of the school and WBC officers. Officers have made enquiries with the relevant government department and have been informed that the application will take 6-12 months to determine. Officers cannot predict the prospects of success of the application. The BSWG therefore recommends that if during the life of the application officers consider that the application is likely to be granted the design work preparatory to a planning application should be commissioned without delay so that these two steps occur in parallel (as far as possible). Without that, it is difficult to see work beginning before the end of 2020/21. The build time is expected to be 12 months (i.e. the whole of 2021/22) so the extra income will not be seen before 2022/23.

8.5 The Farnham project is intended to feature a new extension with modern adventure play and climbing as its chief attraction. However, the original proposal for a climbing installation is now not an option for this project, due to being subsequently installed in other leisure centres in the surrounding area. Places Leisure, WBC's leisure centre manager, has been asked to find an alternative option to deliver increased income earlier than the Godalming project. Places Leisure has replied positively but prudence requires that the extra income is modelled to occur in 2022/23.

8.6 An aspect of the proposals that needs investigation is whether the work will be accompanied by a temporary reduction in the available facilities during building and hence to a reduction in footfall and income. If so, the impact on WBC's management fee and profit share should be estimated and incorporated in the model.

9. <u>Other income (2019/20 budget = £5.3m excluding recharges and retained business rates)</u>

9.1 The main components are property rents (£2.8m), grants (£1.5m) and interest (£0.8m).

9.2 Further investment in commercial property is a significant element of the MTFP proposals, assuming investments of £15m in each of the three Plan intended to generate a net margin of 2% p.a., namely an additional £300k in each of 2020/21, 2021/22 and 2022/23. As Wey Court East shows, such investments are not without risk. View 3 takes a more conservative view in the early years and includes such extra investment in 2021/22 and 2022/23 only. However, the strains on the budget in 2023/24 increase significantly and the View 3 "example solution" is to assume additional investment of £30m generating an additional £600k in 2023/24. Whether this is realistic is a completely separate issue.

9.3 The largest single component of grant income has been SCC recycling credits, budgeted at £700k for 2019/20. The MTFP recognises a reduction by £290k to £410k in 2020/21 and then assumes that this will be maintained for the next two Plan years. The Head of Service has advised that a reduction of £350k is more likely in 2020/21 and could be followed by a further reduction by £200k to a base level of £150k in 2021/22 which is expected to continue. Such a reduction would be contested by WBC but prudence suggest that it should be assumed given SCC's own financial pressures. These lower expectations are reflected in View 3.

10. <u>Transfer to reserves (2019/20 budget = £1.7m)</u>

10.1 WBC bases its budget on generating a sufficient operating surplus (although that term is not used) to be able to provide about £1m for essential maintenance and relatively small-scale capital projects in the following year (usually referred to as the "revenue contribution to the capital program") and, in addition, to transfer a generally smaller amount to various earmarked and non-earmarked reserves. This analysis does not include the New Homes Bonus which has appeared in the GF revenues ledger as a revenue item matched by a transfer of the same amount to a specified reserve. For this reason, it does not appear in Views 1, 2 and 3.

10.2 Some small capital projects can be deemed to be of lower priority and a reduction of the revenue contribution to the capital programme is included in View 3 for all

Plan years. However, this contribution is not reduced to below £500k p.a. in recognition of the importance of essential maintenance.

11. Interim conclusion

View 3 represents one example of how the budget could be balanced in the Plan years. It is not intended as a concrete suggestion of how balance should be achieved because it involves some critical revenue-raising decisions and some important data is either not yet available or is subject to a high level of uncertainty with regard to quantum and timing. It also assumes a much reduced revenue contribution to the capital programme.

12. Next steps

12.1 The purpose of work-stream 2 is to understand residents' priorities for services, in order to do this a participatory budgeting exercise has been commissioned. The results of this exercise are due at the end of November and will be used to inform the work of the BSWG.

12.2 The BSWG intends to produce further reports as more information becomes available, including one in time for the January 2020 round of committees, with recommendations designed to inform the budget and MTFP.

Recommendation

It is recommended that the Value for Money and Customer Service O&S Committee endorses the following recommendations to the Executive:

1) Providing the SCC application to the Secretary of State in relation to the expansion of Godalming Leisure Centre car park is not, on enquiry, expected to encounter difficulties in securing approval , that the design work preparatory to a planning application should be commissioned without delay, subject to Leisure Programme Board approval.
2) The MTFP is modelled in at least the level of detail contained in the BSWG spreadsheet with updated estimates for new cost and income items accompanied by prudent timing estimates.
3) Transformation costs should be carefully estimated with regard to both quantum and timing and included in the MTFP model.
4) The MTFP should be extended to 2023/24 to reflect the fact that it is the first year in which retained Business Rates are forecast to make no contribution.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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