

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

04 FEBRUARY 2020

Title:

MEDIUM TERM FINANCIAL PLAN 2020/21 – 2023/24
GENERAL FUND BUDGET 2020/21

Portfolio Holder: Cllr Mark Merryweather , Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Public

1. Purpose and summary

1.1 This report outlines the latest Medium Term Financial Plan and the draft General Fund Budget for 2020/21. The Financial Plan sets out the key work streams for the Council to focus on which, collectively, aim to address the significant shortfall in annual budget projected over the medium term which is estimated to grow to £5.4million per annum or 40% of the total net service cost by 2023/24.

1.2 This report contains the following Annexes:

Annexe 1 – draft Medium Term Financial Plan

Annexe 2 - draft General Fund Budget Summary 2020/21

Annexe 3 – statement of key variations from 2019/20 budget

Annexe 4 – draft Fees & Charges for 2020/21

Annexe 5 – schedule of projected reserves and balances

Annexe 6 – draft Capital Programme

2. Recommendations from Executive to Council

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 1.9% increase in Waverley's element of the Council Tax Charge for 2020/21, equivalent to around 7p a week on a Band D property;
2. agree to make no change to the Council's existing Council Tax Support Scheme;

3. agree the proposed Fees and Charges as shown at Annexe 4;
4. approve the General Fund Budget for 2020/21 as described in this report, and in Annexes 2 and 3; and
5. approve the General Fund Capital Programme as shown at Annexe 6.

3. Reason for the recommendation(s)

The Budget is a major decision for the Council and setting a balanced budget is a statutory requirement. Scrutiny of the financial plan and budget proposals demonstrate transparency and good governance

4. Background

Waverley's draft Medium Term Financial Plan (MTFP) document

4.1 The Council's MTFP is at Annexe 1 which has been updated to include the latest General Fund projections, emerging pressures, spending priorities, risks and opportunities. The Plan also sets out Waverley's strategy for addressing the projected budget shortfall over the next four years and for putting the council in a strong, sustainable financial position. The plan builds on the overview presented to all councillors in November.

4.2 **Budget Projection Summary**

The following table shows the main budget pressures projected over the MTFP period

	Previous Estimate	Latest Estimate			
	2020/2021	2020/2021	2021/22	2022/23	2023/24
Anticipated Major Budget Variations	Change from 2019/2020 Base	Change from 2019/2020 Base	Change from 2020/2021 Base	Change from 2021/2022 Base	Change from 2022/2023 Base
	£000	£000	£000	£000	£000
Inflation - including pay	550	590	550	550	550
Waste funding SCC reduction	290	468			
Housing benefit admin grant	20	10	20	30	30
Business Rate Retained Income	200	150	700	700	400
Planning Income Pressure	300	200			
Other Major Budget Variations		457			
Budget Shortfall	1,360	1,875	1,270	1,280	980

Cumulative projected shortfall over MTFP period £5.4m

4.3 Budget Strategy

Waverley’s strategy for addressing the budget shortfall is illustrated below. The themes in squares relate to ongoing actions, the four ovals indicate the principal workstreams identified in the strategy.

General Fund Budget Strategy



4.4 The indicative targets for each work stream in the budget strategy for the 4-year MTFP period, to be reviewed following the budget setting for 2020/21, are:

	Original Savings Target in MTFP £000	Included in Draft 2020/21 Budget £000	Target for 2021/22 to 2023/24 £000
Business Transformation	1,000	102	898
Commercial Strategy	700	231	469
Property Strategy	1,200	300	900
Procurement	200	43	157
Cost review	1,000	699	301
Council Tax increase – assuming 2%	790	194	610
Other		306	195
Total	4,890	1,875	3,530

Budget Setting 2020/21

4.5 Budget Review and scrutiny

At its September 2017 meeting the Value for Money and Customer Services Overview & Scrutiny Committee expressed the view that a radical re-think of how

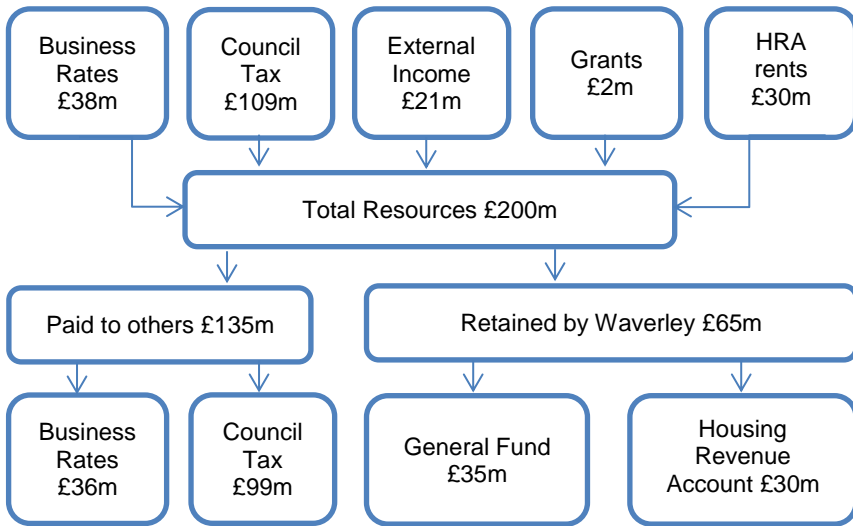
services, front line and support, are delivered was needed to meet the anticipated long term financial challenges facing the Council. Following this, a Budget Strategy Working Group (BSWG) was agreed by the Overview & Scrutiny Co-ordinating Board in September 2017 and established in March 2018. The Group comprises representatives for each of the scrutiny committees. It is chaired by Councillor Mulliner.

- 4.6 The BSWG has both a strategic and a scrutiny role. Strategically, analysing and understanding Waverley's longer-term General Fund financial position to 2023/24 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.
- 4.7 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.
- 4.8 The working group acknowledges that the Financial Plan projection over the review period to 2023/24 will require significant reductions in net service costs 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 revenue over the Plan period, the potential impact of Surrey County Council's budget position and the likely excess of service cost inflation over permitted Council Tax increases.
- 4.9 The Working Group has identified the 'structural deficit' in Waverley's budget arising from service cost inflation, equating to £0.6m per year, compared to additional income from council tax which is limited by Government controls. 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. In 2020/21 this is £5 per Band D equivalent equating to a maximum of £277k additional council tax income. As government funding has fallen away, the Council has become increasingly reliant upon Council Tax funding which is only a third of the overall cost base. In light of this, the view of the Budget Strategy Working Group is that increases in car park charges, which haven't changed for 3 years, and council tax will be necessary over the MTFP period.

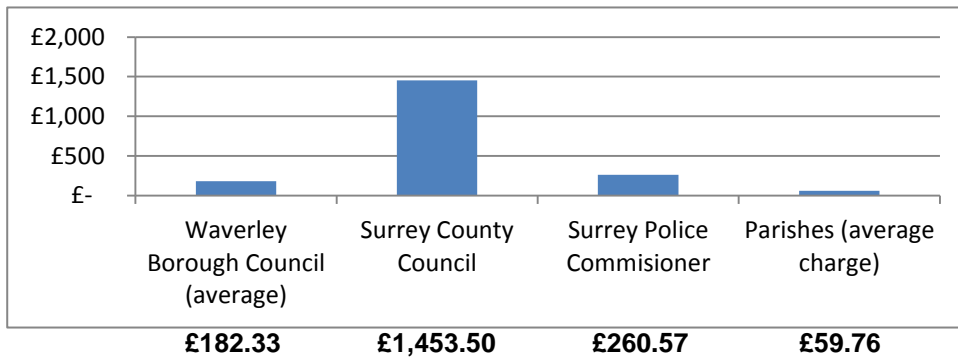
Funding for Waverley's Services

- 4.10 As well as collecting council tax to support its own budget, by law Waverley has to collect council tax for Surrey County Council, Surrey Police and all town and parish councils in the Borough and this money is paid over to those organisations. Waverley keeps 10pence from every pound of council tax collected to pay for its services. The government restricts the amount that council tax can be increased each year and this is explained in more detail later in this report. In addition, Waverley collects business rates from all non-domestic premises in the Borough. Most of this money is paid to the Government with a relatively small amount being retained by Waverley, 5pence from every pound collected. The Government set the rateable value and rates chargeable for all business premises.

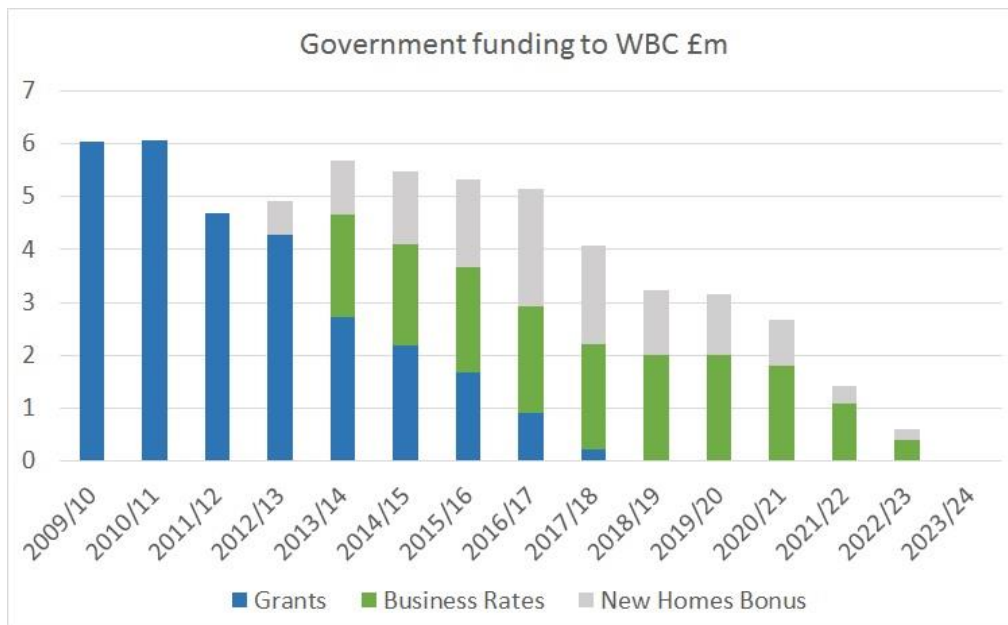
Gross total income by the Council and where it goes (before costs, 2019/20 Budget)



4.11 The total band D council tax charge in 2019/20 is £1,956 split as follows:



4.12 Waverley’s Revenue Support Grant from the government is now zero. There has been a dramatic reduction over the last 6 years from £6m in 2010/11.



- 4.13 Waverley currently retains £2m of the £38m business rates collected as its core funding for general fund services. This main element of this amount, approximately £1.8m, is derived from a Government formula which determines each Council's safety net position against its 'baseline need' for funding. The second element, approximately £0.2m, is related to the total Rateable Value (RV) of business premises in the borough which is affected by physical properties and the RV assessed by the Government's Valuation Office. This can also fluctuate according to appeals from rate payers. The Government announced in the autumn that it was delaying to 2021/22, its review of business rate funding for local authorities and its 'relative needs' calculation. Waverley's MTFP forecasts significant reductions in Government funding over the next four years. Officers have taken a cautious view of the impact of these reviews on Waverley's budget given previous past experience of redistribution formula and this is reflected in the MTFP projections shown earlier. District and borough councils across southern England would tell a similar tale, and further lobbying is being undertaken with local Members of Parliament and the Local Government Association on this issue, as the Government prepares its 'Fair Funding Review' and its proposed new policies on devolution.
- 4.14 In 2016/17, the Government informed a number of councils, including Waverley, that they would have grant clawed back to address the Government's overall funding shortfall. This became known as 'negative RSG' and for Waverley this would have been £800k per year. Since this announcement, the Government has decided each year to fund this shortfall itself rather than impose it on the named councils. However the threat still exists and it is expected that this will be addressed as part of the main review of business rate funding in 2021/22.
- 4.15 The Government announced the 2020/21 local government finance settlement for consultation late on 20th December 2019. The headlines are as follows:
- No negative grant in the coming year
 - Retained business rates for Waverley at same safety net level of £1.8m
 - New Homes Bonus £861k as expected in the MTFP projection but still £300k less than current year
 - Council Tax increase limit for WBC £5 band D or up to 2%, whichever is the higher
 - no limit on council tax increases for town and parish councils
 - SCC council tax increase limit up to 2% plus up to a further 2% for adult social care costs.

New Homes Bonus

- 4.16 The Government has announced that it will pay NHB in 2020/21 and continue to honour the legacy payments for the previous four years. However, the future of NHB is under review as it is funded nationally from business rate revenues. In the consultation finance settlement, the Government has confirmed that Waverley's NHB will be £861k in 2020/21, down from £1,164k in 2019/20. The Council does not currently rely on New Homes Bonus to support ongoing service provision and, instead, has used this funding to pay for income-generating capital spend. This position has been reviewed and the draft budget proposes to split the 2020/21 NHB across property investment, strengthening the property void provision in the light of the future increase in investment over the MTFP period, and also to pump prime the climate change action plan fund to respond to the new Corporate Strategy priority.

Council Tax

- 4.17 Waverley retains approximately 10% of the council tax collected in the Borough with the balance being split as per the chart in 4.11. Each year the Government sets a limit for year-on-year council tax increases, beyond which a council would have to hold a referendum. Last year Waverley increased its council tax by the maximum allowed amount of 2.99%. The consultation finance settlement confirms that borough councils will be able to have a council tax increase of up to 2% or £5 at band D, whichever is the higher. In Waverley's case, £5 is higher and would equate to an increase of 2.75%. In terms of additional council tax income, 2% would generate £204k pa and £5 would raise £277k pa. The draft budget set out in this report proposes a 1.9% increase in 2020/21 which equates to an additional £3.46 per year for an average Band D property, or 7pence per week. The draft budget also includes additional council tax revenue of £184k arising from property growth in the Borough (approx. £150k) and the decision taken by the Council in 2019 to scale back council tax discounts on empty properties (approx. £34k).

Fees and Charges

- 4.18 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 2020/21 where appropriate. Many charges have been increased in line with estimated cost-of-living inflation. Details of the proposed changes to fees and charges from 1 April 2020 are included at [Annexe 4](#). A further review of fees and charges will be undertaken in 2020 both in the light of feedback from the recent budget consultation and also to reflect councillors' desire to consider opportunities to distinguish between for-profit and not-for-profit customers in the charges.
- 4.19 Car park charges have not increased in three years, four years in some cases. There is an increase in car park yield included in the draft budget which generates an additional £145k of income, 2.9% of total car parking income. This income will not be generated from a blanket increase in all car park charges. Some charges will rise and some may reduce to increase usage and improve the environmental impact. The Council will take a strategic approach to charges in the light of the independent review recently commissioned, the outcome of which is expected to be considered by members early in 2020 and to take effect in 2020/21 although still in progress during this 2020/21 budget setting process. Of the additional income generated, some £100k, is earmarked to pay for the ongoing costs of delivering Waverley's climate change emergency action plan.
- 4.20 The commercial strategy highlights the need to review existing income sources to generate additional revenue. One area that is being considered is planning pre-application and performance agreement income. The draft budget includes an additional target of £40k to reflect a proposed revision to the charging structure and approach that will be developed early in 2020 and implemented early in the 2020/21 financial year.
- 4.21 Members of the Executive considered increasing Green Waste subscription charges by £5 to make the total charge £70 which would generate an additional £70k per year. Whilst past increases have not led to a reduction in the number of subscribers, the Executive considers that such an increase would not be in the spirit of the

Council's recent climate change emergency declaration. Therefore, the draft budget assumes the charge is frozen at £65 for 2020/21.

- 4.22 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

- 4.23 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 2020/21, which is also applied to Councillors' allowances, the Joint Negotiating Committee agreed to recommend a 2.5% cost-of-living pay award. This took into account national cost-of-living inflation, current market and salary data, and other councils' pay awards which have been a little higher than Waverley's in recent years. The total cost of £470,000 falls approximately £350,000 on the General Fund budget and £120,000 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

- 4.24 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. The draft capital programme is attached at Annexe 6 and this is covered later in the report.

2020/21 Draft Revenue Budget

- 4.25 The General Fund Summary showing a balanced budget for 2020/21 is included at Annexe 2. A breakdown of the main changes in the 2020/21 draft budget compared to 2019/20 budget which totals £0.25m is included at Annexe 3. Heads of Service and spending officers have examined operational and staffing budgets in detail to respond to the 5% target set by Management Board. This exercise has identified nearly £700k of recurring savings which are detailed at Annexe 3. There are no proposed cuts to services or reductions in funding for community organisations included in the draft 2020/21 General Fund budget.
- 4.26 The table below summarises how the total projected budget pressures, as set out in the table in paragraph 4.2 of this report totalling £1.875m, have been addressed within the draft 2020/21 budget.

	£000
Additional investment property income target	-300
Council tax income – increase of 1.9%	-194
Council tax income – growth in base	-184
Car park income from increased charges	-145
Green waste subscription – increased take-up	-116
Heads of Service savings schedules (annexe 3)	-699
Income from fees and charges increases (annexe 4)	- 86
Procurement savings	-43
Business transformation savings	-102
Climate change costs – from car park income	+100
Business transformation – implementation costs	+130
Other minor changes – net saving	-111
Reduced contributions to reserves	- 125
Total	£-1,875

4.27 The Medium Term Financial Plan identifies a range of key risks and assumptions, including the risks associated with increasing Waverley's investment property income through new acquisitions. Waverley's revised property strategy is included elsewhere on this agenda for consideration. In addition, budget monitoring during the year continues to identify pressure in some statutory income areas including planning and building control. Budgets have been adjusted in 2020/21 but close monitoring will need to continue.

Local Government Act 2003 – Financial

4.28 The Local Government Act 2003 formally introduced a number of specific matters that the S151 Officer must comment on in the budget setting report. These are:

- **Budget calculations: report on robustness of estimates;**
- **Adequacy of reserves; and**
- **Budget monitoring**

4.29 The sections were introduced to ensure sound financial management across all local authorities. Waverley's budget has always complied with good financial management practice. Prudent allowance is 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. Officers are aware of the two new packages of support for local authorities published by CIPFA in 2019, the Financial Management Code and the Financial Resilience Index, and once the full guidance is available these will be used to support these financial management statements in future budget reports to Members.

The Robustness of the Estimates

- 4.30 Account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and generally only income that has a high level of certainty of being received is included within Waverley's budgets. However, Waverley's Financial Plan, together with information presented to members at the November briefings and subsequent reports, demonstrates the financial challenges to Waverley in the future including the risks associated with increasing reliance on investment property income.
- 4.31 The key Financial Plan issues for the General Fund include:
- Increased risk from changes in business rate income due to declining rateable value, increased appeal risk and the Government's review of business rate funding due in 2021 – impact on annual budget mitigated by the business rate equalisation reserve. This reserve has been assessed against the risks and a reduction in contribution has been made in 2020/21. Further adjustments may be possible in future years but the outcome of the Government's business rate review will need to be assessed first, particularly in relation to Waverley's exposure to appeal risk.
 - Keeping the dependency on current and new income from investment property in proportion to the overall budget and providing sufficiently for void periods and costs.
 - Future of government funding including new homes bonus
 - Rising inflation and low interest rates.
 - Impact of Surrey County Council's financial challenges on Waverley
- 4.32 In addition to the detailed scrutiny of the Budget by officers, Councillors have taken the opportunity through the Overview and Scrutiny process, including the Budget Strategy Working Group, to critically examine detailed budgets.
- 4.33 In view of the level of awareness amongst Members and the action taken to produce Waverley's draft Budget for 2020/21, 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 but the risks noted in this report must be acknowledged and increased monitoring during the year will be implemented. The MTFP sets out a multi-pronged strategy to address the financial challenges and these workstreams are progressing well with confidence in their delivery of savings.

Adequacy of Reserves

- 4.34 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 opportunities. It is essential that adequate balances are available to meet these and unforeseen costs.

- 4.35 Projections for the General Fund Working Balance and other reserves for the four year period are shown on Annexe 5. 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 just over 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.
- 4.36 The main risks to reserves in 2020/21 are commercial property voids and meeting the costs of defending the Council in any planning appeals or Judicial Review proceedings. The latter is the subject of a separate report to Environment O&S and the Executive. 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. Contributions to the property reserve and the business rates reserve have been assessed in the light of the estimated risk and adjusted accordingly.
- 4.37 In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered prudent.

Budget monitoring

- 4.38 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 2019/20 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 March as part of the performance management report. Overall the arrangements in place are sound but, with the significant level and range of savings being put forward by Heads of Service in the draft budget for 2020/21 and the increasing reliance on achieving income targets, close monitoring will be essential to head off any potential adverse budget variations.

Council Tax Support Scheme

- 4.39 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 2020/21.

General Fund Capital

- 4.40 Each year, the Council reviews its three-year Capital Programme and agrees the budgets to be included within the Budget for the year ahead and how they will be funded. The overall parameters for the Capital Programme are set out within the Council's Financial Plan.

- 4.41 The draft 2020/21 Capital Programme at annexe 6 shows Waverley BC projects totalling £2.6million as shown at Annexe 6 to this report of which £1m is funded from the revenue contribution referred to earlier. The programme does not include the £1.6m of slippage from previous years or potential CIL bids and, whilst these are not subject to approval as part of this report, it should be noted that for the majority of the brought forward amounts spend is on track and, with the exception of the Frensham scheme and the Weyhill project, further slippage to 2020/21 is not expected. These projects will be reviewed in the coming year.
- 4.42 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.
 - 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 Property Strategy criteria.

5. Relationship to the Corporate Strategy and Service Plan(s)

- 5.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan

6. Implications of decision(s)

6.1 Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources

6.2 Risk management

There are no risks directly arising from the recommendation above, however the budget strategy does carry significant risks and these are set out in the MTFP

6.3 Legal

It is the annual responsibility of the Full Council to approve the Budget and set the Council Tax (Constitution Part 3:B6-7. P.40)

6.4 Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. An equality impact assessment of the detailed budget proposals has been completed to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

6.5 Climate emergency declaration

There are no direct implications arising from this report but reference is made to the need for the main budget proposals to address the resource requirement for the emerging climate change action plan.

7. Consultation and engagement

- 7.1 The Value for Money and Customer Services O&S Committee and the Budget Strategy Working Group have considered the detailed budget proposals. In addition, the Council recently undertook a public consultation exercise to gauge residents' views about the relative spending priorities. This exercise was to help inform the development of the Medium Term Financial Plan.
- 7.2 The Committee was broadly in support of the 5 recommendations being put forward to the Executive (and onto Council). They considered the proposed 1.9% increase in Waverley's element of the Council Tax charge for 2020/21. There were discussions whether this should be higher or a lower rate that was inline with inflation.
- 7.3 A majority agreed to go with the proposal of 1.9%. There was support for no change to the Council's existing Council Tax Support Scheme. In relation to fees and charges, although a majority were in support, there were concerns in relation to any increase in car parking charges and the effect this might have. There was a report being prepared on Car Parking and this would be circulated in due course. Members expressed their disappointment that the outcome of this report would not be available before the council is asked to approve the budget.
- 7.4 The Committee noted the General Fund Budget for 2020/21 as summarised in Annexe 2 to the agenda report, incorporating the major variations included at Annexe 3. There were concerns expressed for the ability of savings in not retaining any business rates in the future and if the climate change budget was sufficient. Committee members questioned how realistic the property targets were.
- 7.5 They also felt the £699k target for Heads of Service was very ambitious but officers reassured the Committee about the deliverability of these amounts. A final comment was in relation to the subscription to recycling of garden waste and committee members were pleased that it was proposed that this stay the same.

8. Other options considered

- 8.1 Options considered are set out in the report.

9. Governance journey

- 8.1 The detailed budget proposals and revised MTFP was reported to the Value for Money and Customer Services O&S Committee in January ahead of consideration by Executive and Council in February.

Background Papers

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

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Agreed and signed off by: Graeme Clark and Councillor Merryweather
Legal Services: n/a
Head of Finance: 24/01/2020
Strategic Director: 24/01/2020
Portfolio Holder: 24/01/2020