

Waverley Borough Council

Report to: Council

Date: 12 December 2023

Ward(s) affected: All

Report of Director: Transformation & Governance

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Report Status: Open

General Fund mid-year MTFP review 2023/24

1. Executive Summary

- 1.1 This report outlines the latest projections for the MTFP. It highlights the emerging pressures on the General Fund Revenue budget and the compensating measures both of which have been identified at the time of writing and estimates their financial impact on the Council's services and finances.

2. Recommendation to Council:

The Executive resolved to **RECOMMEND** that Council:

- i. **Notes the 2023/24 forecast outturn position for the General Fund;**
- ii. **Notes the emerging pressures and risks set out in the report;**
- iii. **Notes the position regarding the General Fund capital programme and individual capital projects.**

3. Reason(s) for Recommendation:

- 3.1 The annual General Fund budget is a major decision for the Council and setting a balanced budget is a statutory requirement. The uncertain economic climate necessitates a review of the MTFP in the light of its financial impacts on the council: the Council must act quickly to ensure the risk of a net budget shortfall is addressed so that the Council can continue to function.
- 3.2 Scrutiny of this MTFP through a Mid-Year Review demonstrates transparency and good governance.

4. Exemption from publication

Is the report or any part of it exempt from publication?

No

5. Purpose of Report

- 5.1 The Medium-Term Financial Plan (MTFP) is the Council's [please change throughout] key financial planning document which takes account of all the various currently known factors and influences that may impact on the Council's General Fund for the forthcoming financial years up to and including 2026/27. These factors are both within and beyond the Council's control and include; general macro-economic conditions, Government funding plans and restrictions, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, and changes affecting our sources of independent income etc. The MTFP also includes the identification of the risks that the Council has identified that it faces.

5.2 The MTFP looks forward over the next four years to anticipate the spending pressures faced by the Council. In light of the changing economic picture, planning now to meet expected and known changes in the future provides greater opportunity to mitigate the impact.

6. Strategic Priorities

6.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan. The Corporate Strategy is reliant on financial sustainability and the MTFP is at the heart of its delivery.

7. Background

7.1 Outturn Position 2022/23

7.1.1 A summary of the General Fund revenue outturn was reported to members in the Q4 performance report in July 2023. In total, there was a net underspend of £729k after allowing for agreed budget carry forwards. That underspend equates to a 5% movement from the net General Fund service budget of £15million. Proposals for the apportionment of this underspend will reflect the stresses assessed in this report.

7.1.2 The service-by-service outturn analysis was also included in the Q4 performance report to O&S in July accompanied by commentaries from the S151 Officer and the Heads of Service. In preparing this 2023/24 mid-year review the key matters arising have been reviewed further and matters particularly impacting on the MTFP are noted below.

7.1.3 Key items to note are as follows:

- Assets and Property
 - Central Offices experienced some savings on business rates with the top floor of The Burys not in use, and additional rental incomes.

- Environment
 - Car Park income performed much better than the approved budget in 2022/23. This was due to the combined effect of rate increases as per the Council approval in September 2021 while the reduction in volumes due to covid-19 and the fee uplift not materialising to the degree forecast.
- Finance
 - Investment income from cash deposits benefitted from higher than expected deposit rates that in part mitigated the even higher rates of inflation experienced, achieving a gross £840k improvement on budget in 2022/23.
- Planning
 - Planning income outturn in 2021/22 fell £98k short of budget however this was mitigated through some cost control.
- Other
 - Establishment spend was carefully managed and monitored throughout the financial year and delivering a final saving for General Fund.
 - Collaboration delivered savings in year following the restructure of the Joint Management team in year.

7.2 2023/24 Budget Management and emerging pressures on the MTFP (Annexe 1)

7.2.1 The Council is now six months into the new financial year, and eight months have passed since the Council set its 2023/24 budget. Current Forecasts estimate a forecast outturn of a net £234k surplus. Officers have reviewed the latest position and, even though inflationary pressures are higher than expected, there are sufficient compensating measures identified to currently forecast that General Fund should remain in an overall balanced budget position in 2023/24.

7.2.2 Despite this position, there remain significant pressures on the current and longer term outlook for the Council's financial plans. The latest updates on these are summarised below:

- **Impact of inflation on Waverley's budgets – pay, contracts, IT, utilities (Annexe 2)**

At present, across £168k adverse variance is projected in 2023/24 for General Fund inflation. Consumer Price Inflation (CPI) is currently 6.7% (August 2023). Many of the Council's contracts are linked to February and March CPI (10.1-10.4%) whilst budgeted inflation was estimated between 5% and 9%, which has led to costs incurred beyond the original budget.

One mitigating consequence of inflation is currently higher deposit rates which, when applied to constant cash deposits has driven better than expected gross treasury yield, with Bank of England base rate increases and robust management of staff costs. This income is forecast to perform a net improvement of over £800k compared to budget. This is not without its own adverse impact however, as the financial benefits of holding cash deposits makes them more attractive compared to investing in the capital projects that the Council needs to pursue its Corporate Strategy.

Unfortunately, despite being under control in the current year, the impact of inflation will have further negative impact in future years as inflation compounds, and current forecasts for inflation remain higher than usually anticipated. Officers have built increased inflation forecasts into the updated Inflation Schedule (Annexe 2) and Updated MTFP (Annexe 3), however these rates remain unknown with more uncertainty than is usual.

- **Cost of living and its economic impact on Waverley's community, businesses and residents**

Officers have seen the impacts of the cost of living on both expenditure and income. Some services have experienced an uptake in support needs, with officers supporting through funds such as Household Support Fund and hardship funds where possible. Presently, financial impacts to the Council are relatively small and within overall current budgets.

- **Key Income**

Key Income overall is performing well, mainly due to treasury investment income with higher than anticipated interest rates. However, some areas are struggling to achieve budgeted income and budgets relating to these areas going forward will need to be carefully considered in budget setting.

- Car Parking – recovery of car park usage and therefore car park income following Covid-19 has plateaued. Current forecasts are that car park income will not hit budget in 2023/24, potentially around £280k short of budget.
- Development Management – the Council has been experiencing a reduction in planning applications which is in line with the national trends, income could fall circa £150k short of budget
- Building Control – reduced income has been experienced to date, currently forecast to fall £60k short of the budget. This reduction often follows the trend for reduced planning applications.
- Leisure Centres - The 2023/24 leisure contract has now been let to Everyone Active, and Waverley will continue to receive a management fee in to the Council. In the short to medium term this is at a lower level than experienced with the previous contractors, this is due to the investment the leisure provider will be making in the centres, however this has been provided for within the budget and MTFP. The contracted income will return to usual levels over the life of the MTFP.

- **Recruitment and retention**

The employment market is currently competitive and both retaining and recruiting staff has been a challenge this financial year. Interim support where needed for hard to fill vacancies is at a particularly high cost due to the active market, therefore careful management by managers is helping to minimise these costs and keep them within approved staffing budgets to date. At this stage this is not of concern as officers are managing the impact on service budgets and in depth

regular monitoring is taking place to ensure variances are kept to a minimum.

There exists a risk that returns sought from efficiencies will diminish to a point of exhaustion if not reversal. The Council has benefitted from its investment in the Development Planning team included in the 2023/24 budget. However, there can be no guarantee that the level of annual cost savings secured in recent years can be sustained.

- **Updates on measures to balance the General Fund budget**

The MTFP includes various saving/efficiency programmes in place to address the forecast budget shortfall. These are particularly important to identify given the uncertainty in the estimates and local economy caused by the pandemic and rising costs. Some updates included in this MTFP review include:

- Commercial Strategy

- Fees and charges increases including non-statutory planning fees have been applied and delivering income, however in some areas, volume has fallen.
- Expected new income from new car parking charges haven't been delivered to date, however projects are being pushed forward.
- The Edge has been passed back to Surrey County Council and is no longer in the leisure management contract.

- Business Transformation

- 2023/24 target delivered in year.

- Asset Management

- 2023/24 income target in year. Awaiting handover of Brightwells site.

- **Other new items identified since February Council;**

- Changes in planning fees due in reform of national planning policy, awaiting outcome, draft regulations have been laid before parliament – 35% increase for major applications and 25% increase for all other applications.

7.3 MTFP Forward Look

7.3.1 Looking forward to 2024/25 and beyond, a budget gap remains in our MTFP rising to £7.2m p.a. gross pressures (£20.4m cumulative) by 2026/2027. After identified measures to mitigate this gap, the budget shortfall remaining to be resolved rises to £1.4m p.a. (£6.7m cumulative) by 2026/2027.

7.3.2 Inflation rates applied in the following years in the MTFP range between 2% and 5% which are applied dependant on the contractual agreements in place or expectations on general market inflation. The breakdown of the current forecast inflationary position can be seen at Annexe 2, table 2.

7.3.3 The mid-year update to the MTFP is at Annexe 3 and any further changes forecast at this stage has explanatory notes.

7.3.4 During the budget setting period officers will work with services and members to cover the 2024/25 £1.2m projected shortfall. And, in addition, look to improve the future years financial position. Options to be considered could include;

- Reductions in Revenue Contributions to Capital
- Additional savings targets
- Income targets

8. Capital Programme Review

8.5 Capital projects are also experiencing significant contractor driven adverse cost and timing pressures.

- Where projects are funded from elastic sources, measures can be taken to mitigate these pressures. For example, projects that will be funded from future income streams may be recalibrated so that the future income streams are increased to compensate for increased costs.

- However, projects – including those that had previously been “secure” - that are to be funded from inelastic sources are more threatened as additional or alternative funding will need to be identified to reassure their delivery.

Capital projects are also adversely affected by:

- Higher deposit yields as the financial benefits of holding cash deposits makes them more attractive compared to investing in the capital projects that the Council needs to pursue its Corporate Strategy, and
- The increasingly fragmented and competitive environment for external funding and support, to the extent one even exists.

8.2 Officers have undertaken a review of the current years capital programme to identify variance. These variances include:

- Assets – Both 69 High Street and Wey Court East will require carry forwards of budget into 2024/25. The estimated carry forwards required are £4.5m. This is due to additional reviews taking place on viability, delays in lease agreements and in house resource.
- Environment – Several projects will have carry forward requests within this service. These are partially due to resource issues, timing of funding conditions, and further work being required to business cases. The total carry forwards identified at this stage are £344k. Savings of £41k have been identified in this area however these savings relate to external funding and not GF revenue.
- Organisational Development – A savings of £69k has been identified for the EV charging points project. Going forward the purchase and installation of EV charges will be done by contractors; the Council will then have profit sharing arrangements with these contractors. This budget to purchase EV charges is therefore no longer required.

8.3 Other projects are experiencing an inflationary impact on tender returns. Officers are updating feasibility assessments on these projects and where possible seeking additional funding to try and ensure they can go ahead.

8.4 In the upcoming budget setting process, projects will continue to be assessed against corporate priorities and have full feasibility assessments undertaken. Officers will be reviewing 10-year maintenance programmes for all assets to start to forecast the future year budget requirement for these asset capital bids.

9. Consultations

9.1 The Resources Overview and Scrutiny Committee considered these proposals at its meeting on 14 November 2023.

10. Key Risks

10.1 In addition to the issues identified above, there are a range of risks associated with the delivery of the 2023/24 budget and forward financial plan aims. A summary of the key risks to the Council's finances is included below:

10.2 We do not have significant non-earmarked reserves:

- Limited ability to fund change in the Corporate plan, zero carbon delivery, structural deficit.
- One-off adverse impacts such as planning appeals, judicial reviews are not well provided for.

10.3 Adequacy of reserves:

- Business rates – under the current retention system we carry some of the cost of appeals, including backdated refunds, plus reducing total rateable value in the Borough, for example the impact of permitted development on commercial premises, therefore it is appropriate to hold a reserve to mitigate the costs if they come through.
- Housing benefit overpayment recovery – will be limited in future due to Universal Credit however a reserve is still held to mitigate this risk.

- Investment property voids – investment property income is an important revenue stream to the Council and where properties are empty, the loss of income is covered by the void provision to minimise immediate impacts on the revenue budget.

10.4 Negative Government grant:

- Still on the agenda – upcoming Fair Funding Review which further delays have been confirmed until next government spending review.

10.5 Further constraints on income:

- The unknown economic impact of inflation and interest rates

11. Financial Implications

11.1 All decisions made with regard to the budget will impact on the Council's resources.

12. Legal Implications

12.1 The report meets the duty to report on the robustness of the estimates provided, the adequacy of the financial reserves in place and the monitoring arrangements in line with Section 25 of the Local Government Act 2003. It is critical that the overall financial plans to deliver the Council's aims and objectives, and the proposals included in this report support this aim.

13. Human Resource Implications

13.1 No direct impact.

14. Equality and Diversity Implications

14.1 There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments of the detailed budget proposals

will be carried out to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

15. Climate Change/Sustainability Implications

15.1 There are no direct implications arising from this report. The annual budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan delivery.

16. Summary of Options

16.1 Set out within the papers.

17. Background Papers

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

18. Appendices

18.1 This report contains the following Annexes:

- Annexe 1 – Q2 Performance Summary
- Annexe 2 – Inflation Position Statement
- Annexe 3 – Updated General Fund MTFP

Please ensure the following service areas have signed off your report.
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Service	Sign off date
Finance / S.151 Officer	05/10/23
HR	n/a
Equalities	n/a
CMB	3/10/23
Executive Briefing/Liaison	17/10/23
Committee Services	1/12/23