1 EXECUTIVE SUMMARY

The Medium Term Financial Strategy (MTFS) is the Council’s key financial planning document which takes account of all the various factors and influences that may impact on the Council for the next few years. It also considers and encompasses the financial implications of Council Priorities and is thus an integral part of the service planning process and is updated, at least, annually. The MTFS ensures that we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go through the service planning and budget setting process.

The Council is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against the background of significant funding cuts for Local Government alongside Government plans for major Local Government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including staffing, waste management, and demand for services for the elderly and welfare reform as well as implementation of the national living wage. This environment will challenge the ability of the Council to continue to respond to the needs of Elmbridge residents and the wider community.

The UK’s recent vote to leave the European Union (EU) is likely to herald more instability in the short to medium term and the consequences are still to be understood over the MTFS period.

At a local level, there are changes in Elmbridge’s demography with an increasing population and a growing number of our most vulnerable residents requiring support. Although the Council’s ranked as an affluent borough, there are still areas of deprivation with issues of child poverty. The Council recognises the importance of new housing and business growth, as well as revitalising our economy and job opportunities, so that ultimately people’s standards of living will improve, while equally recognising the pressures to preserve the green belt and green open space within the urban fabric.

The MTFS includes a forward look over the next few years to anticipate the cost pressures the Council will face and the level of savings that will need to be made to keep Council Tax increases to acceptable levels. The annual review of the MTFS is based on a financial forecast over a rolling three to four-year framework from 2018/19 to 2020/21 which will help ensure resources are aligned to the outcomes in the Council Plan.

The contents of this strategy are our response to the significant financial and service challenges that we face and the need to plan ahead for the future with fewer resources. However, it is not simply about identifying savings, it is also about all the things we need to do to make the Council financially and organisationally stable so that we can continue to deliver our Council objectives and thrive as a resilient Council.
By 2018/19 the Council’s core grant funding will have reduced by approximately 87% since 2010. Central Government’s continued commitment to reduce the overall levels of public debt would indicate significant reductions in grant funding are likely to continue. In order to strengthen our financial position, the Council will have to consider other ways to generate income and be self-sufficient including changes in local taxation, fees and charges and trading activities as well as supporting economic growth within the borough.

Central Government have stated that they remain committed to long term reforms in the way Councils are financed. Their aim is to significantly reduce reliance on central grants and move local authorities to be self-financing. The timeline for this was originally by 2020 however as a result of the snap election and Brexit negotiations this timetable may well be compromised. If the main Local Government grant is to be phased out then Councils will rely more on income from council tax, local business rates, fees and charges, trading income as well as contributions towards service costs from third parties.

This revision to the MTFS builds on the previous strategy and updates the assumptions to reflect the general economic position. The future outlook for District Councils’ funding continues in a downward direction with reducing resources and increasing demand. The Council remains under pressure to adjust how it delivers services, how it generates income, and at what level, and to review the functions it performs in order to deal with on-going and increasing challenges.

The Council’s approach to financial planning over the medium term will include a focus on investment in growth and income generation. The Council recognises that economic growth benefits the businesses and residents of Elmbridge. It also helps to strengthen the Council’s financial position and improves resilience through less exposure to reductions in government funding.

The Council has responded to the financial challenges in a systematic and planned way, through an approach based around economic growth, managing demand, and a strong track record for identifying and delivering savings, increased income as well as efficiencies, whilst protecting priority services as much as possible. The Council will have to make very difficult choices in the years ahead about which services to prioritise. In order to avoid cuts to services, the Council continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of reduced resources. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners, the County and neighbouring councils to maintain and improve outcomes whilst reducing public spending.

Within the 2016/17 settlement and as part of the multi-year offering the Government provided indicative funding up to 2019/20. However, uncertainty still exists in respect of future government funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 75% rates retention and the fair funding review. Further implications arising from the UK’s decision to leave the EU are yet to be seen over the next few years.

Over the years the Council has made significant progress in the achievement of its strategic financial priorities. The Council’s underlying financial position remains strong and this has received recognition from Grant Thornton in their Annual Audit Letter, reported to the Audit & Standards Committee. In addition, the statement of accounts for 2016/17, received an unqualified External Audit opinion.
The funding estimated to be raised from council tax and business rate payers over the next three years is not sufficient to cover current level of spend plus new budget pressures. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the “budget gap” or the “funding gap”. Thus, the funding gap is a combination of the Council’s best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action will be required over the entire three-year period covered by the MTFS to enable the Council to satisfy the legal requirement to balance the budget.

2  DELIVERING THE COUNCIL’S PRIORITIES

The Council has developed a new vision for the next five years and the Vision for 2018-23 is:

A responsive and effective Council, protecting and promoting the interests of residents and businesses and safeguarding our environment, while maintaining a community for all.

The role of the Council's financial planning process is to support the achievement of the Council’s Strategic Priorities and Council Plan.

The Council Plan can be found on http://www.elmbridge.gov.uk.

3  FUNDING FROM GOVERNMENT AND LOCAL CONTEXT

The Council has seen significant year-on-year funding reductions since 2010, with Formula Grant falling from £6.4 million to 0.8 million in 2019/20 (90% reduction). The Council is expected to pay a “negative RSG” of £1.5 million (65% of our retained Business Rates share) in 2019/20. In addition, changes to the rules around the New Homes Bonus has reduced this discretionary Government grant from £2.9 million in 2016/17 to around £1.2 million in 2018/19.

As a result of this the Council continues to face a significant challenge in addressing its forecasted budget deficit over the next few years in an environment where there is considerable uncertainty and increasing levels of risk. The Council will have to adopt a balanced approach to addressing the projected budget shortfall over the medium term.

The Council has managed to cope well with the impact of the deficit reduction to date but further steps need to be taken given the investment required for the periodic renewal of some of the Council’s assets and the demand on our services.

Financial constraints facing local authorities are very challenging and, in order to contain expenditure within available resources, it is expected that some difficult decisions will have to be made. However, within the tight overall constraints, there are real opportunities for the Council to direct its resources towards local priorities and to transform services.
The MTFS also includes the use of a reasonable level of reserves over the medium term. However, it is recognised that any organisation, whether private or public sector, can only achieve a finite level of efficiency savings, or use up its finite cash reserves, before it has to consider reductions of service standards or service volumes.

Our high-level strategy for becoming self-financing organisation is in five key areas:

- **Transformation** – continue with the digitalisation of customer contact and challenge systems and processes, with a focus on digital by design approach.
- **Major Contracts** – reviewing our major contracts and ways to procure jointly to achieve savings and improvements, without sacrificing the quality of services to our residents.
- **Income** – increased income from Business Rates and Council Tax as well as good management of existing fees and charges income.
- **Commercial property income** from prudent property investment in the Borough and maximising income from existing assets.
- **Regeneration and Economic development** – ambitious plan for regeneration and investing in local businesses will result in direct financial benefits through growth in Business Rates, Council Tax and New Homes Bonus.

The Council recognises that its ability to continue to deliver the full range of front line services will depend on its ability to generate new funding streams, extend existing sources of income, manage costs and improve the way that the residents access services whilst supporting the vulnerable.

**4 TREASURY MANAGEMENT**

The Council invests money in a wide range of financial institutions and the investment interest earned is used to support the delivery of services. The major issue for treasury management continues to be the low-level of interest on short-term deposits and the significant difference between short term investment rates and long term borrowing rates.

Emphasis continues to be placed, in line with the Treasury Management Strategy, on mitigating counterparty risk by giving preference to security and liquidity. This has resulted in greater use of investments with higher security and increased liquidity. The Strategy continues to support a policy of limiting the need for external borrowing by the utilisation of internal funds.

Investment income is a significant factor within the Council’s net budget. In the event of an adverse change in market conditions during the year, resulting in a lower level of investment income being received, funds held within the Interest Equalisation Reserve would be utilised to smooth the effect of lower than anticipated returns. In such circumstances, the Council would then need to re-evaluate its Medium Term Financial Strategy.

Officers, when funds are available and when market conditions allow, have made longer term investments (greater than 1 year) in particular escalating deals where the rate increases over the term of the loan. Details of the investments can be found on the Audit and Standards Committee Treasury Management reports.

The profile of investment redemption dates at 5 January 2018 is shown in the following graph shows that 70% of the cash investments are now under 6 months with no investment longer than 2 years.
5 COUNCIL TAX LEVELS

The Budget for 2018/19 has taken into consideration the administration’s desire to continue the policy of moderating the increase in its Council Tax where this can be managed prudently. The Council’s approach is to deliver an affordable but realistic level of Council Tax over the period of the MTFS. The Council needs to ensure that it has adequate resources to meet its statutory and mandatory obligations and the means to deliver its priorities.

Council Tax is our main source of funding for the provision of local services, and despite it being determined locally on a democratic basis, there continues to be centrally imposed limits on increases without express local permission through the mechanism of a referendum. Although Boroughs and District Councils had been allowed discretion to increase Council Tax by up to £5 per annum for the period up to 2019/20, Councils have now been given additional flexibility to increase Council Tax by up to 3% for 2018/19. Taking all relevant considerations into account, the Administration has decided to recommend to Council that the increase in Council Tax in 2018/19 should be set at 1.90% (£4), £215.00 for a Band D equivalent. which is below the maximum level permitted. A £5 increase has the potential to generate an additional £65,000 Council Tax income in 2018/19 and a 3% increase would generate an additional £150,000. The proposed increase will position Elmbridge’s, Council Tax (excluding Parish’s) as the fourth highest of the Boroughs and Districts in Surrey.

6 VALUE FOR MONEY

The Council will continue to strive to deliver efficient services that provide value for money.

The Council has a strong track record of sound financial management, a view endorsed by the Audit Commission and affirmed by the current External Auditors, Grant Thornton. Elmbridge has relatively low staffing levels and has outsourced services like Waste Collection, Street Cleaning, Grounds Maintenance and Leisure Centre/Sports Hub Management.

The Council has already achieved/identified significant year on year savings/additional income to negate the reduction in Government funding.
Resident perceptions of the services provided by the Council are measured through the Elmbridge Residents’ Panel surveys (conducted in 2016) and previously through BVPI/Place Survey. Eighty-eight per cent of residents said they were satisfied with the way Elmbridge runs its services. Seventy-three per cent of residents agreed that the Council provides value for money for the services for which it is responsible.

7 MANAGING FINANCIAL RISK AND UNCERTAINTY

Given the uncertainties of the economic environment and the national political landscape, the scale of reductions required present significant risks in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to Cabinet, Audit and Standards Committee and the Council.

As the Council’s funding becomes increasingly reliant on local sources and exposed to greater fluctuations, it is increasingly important to have appropriate strategies for managing any impact. The Council has identified the main areas of risk as:

- Reducing business rates yield;
- Failing income from services due to changes in demand and other external barriers;
- Rising costs of maintaining ageing assets;
- Rising demand and expectation of core services;
- New and extended legal duties;
- Future of New Homes Bonus funding;
- Business Rates funding share;
- Total reliance on locally raised revenues and ability to increase Fees and Charges and Council Tax Levels; and
- Pressure from Surrey County Council to accept further reductions in payments for services.

**To manage the impact of a reducing Business Rates Yield, the Council has:**

- Strengthened staff resources towards debt collection and enforcement;
- Worked with the District Valuer and partners to try and develop reliable forecasts of business rates valuation changes;
- Assessed the benefits and risks of “pooling” with neighbouring authorities;
- Invested in our local businesses.

Since the Business Rates retention was introduced, the balancing of the budget is heavily influenced by the Council achieving its Business Rates projections. Monitoring of Business Rates income continues to be a key factor in any Finance projections.

The Council is faced with an uncertain financial climate over the medium to long term which presents a high risk to the Authority and there remains potential for further, as yet, unrecognised risks. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. The Strategic Director & Deputy Chief Executive, as the Council’s Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget setting process.
In assessing an authority’s level of general reserves, CIPFA has identified one of the major factors is meeting possible increases in either unpredictable or demand-led expenditure or income. The principal assumptions made in formulating the annual budget impact not only the budget itself, but also on the level of general reserves. In this context the principal budget assumptions for 2018/19 as set out should be maintained.

The principal demand-led pressures on income are in respect of housing and development activity within the Borough, reflected in income obtained from planning applications and the New Homes Bonus, and also in respect of off-street car parking and recycling services. In addition, as the Council continues to acquire Property Assets, any variations in rentals, including rent free periods, will need to be managed carefully. Estimates within the budget are based on current levels of activity; a variation in activity levels of 10% would produce a variation in income, as follows:

| Impact on income due to a variation of 10% +/- in activity levels (£'000) |
|-----------------|-----------------|
| Planning Applications | 130 |
| Off street Parking | 310 |
| Recycling Income | 130 |
| Other External Grant Income (including SCC) | 100 |
| Property Rental Income | 450 |
| Business Rates (Excluding the effect of the safety net) | 1,000 |
| **Total** | **2,120** |

Key actions being taken to manage risks:

- Agree to the multi-year grant offer from government to reduce uncertainty in this element of general fund income.
- Review level and use of reserves and balances in the light of the greater certainty on grant funding for the next three years.
- Optimising return on cash surplus in times of low interest rates, balancing security, liquidity and yield.
- Continue to use existing assets more effectively, releasing space which can generate rental income.
- Continue to invest selectively in Property Acquisitions within the Borough which not only strengthens financial resilience but also contributes to the economic wellbeing of the Borough.
- Undertake a review of capital spending plans to ensure a sustainable business case with affordable capital programmes.
- Review Partnerships and funding to Voluntary sector, strengthen service level agreements and encourage volunteering to support local community services.
- Maximise invest to save opportunities to generate income, improve processes and make savings.
- Use digital technology to speed processes and make it more efficient for the end user.
- Secure new funding opportunities or alternate delivery vehicles to deliver services.
- Optimise efficiency savings by jointly procuring for services.
• Optimising the use and the income from the Council owned leisure facilities (Xcel and the Sports Hub)
• Enhance the provision of customer services by effective use of technology to align with our resident needs and accessibility requirements.

By implementing a combination of the above Elmbridge Borough Council will look to have a balanced budget for the period of the medium term financial strategy. Reserves will be cautiously used given the uncertainty over the outcome of the Business Rates retention and the Fair Funding Review.

The External Auditors in their Audit findings report in September, stated “The Council will have to ensure adequate level of reserves are held in the medium term financial planning period to address any negative fluctuations in funding”.

External Auditors also went on to say “we are satisfied that in all significant aspects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017”.

Price Inflation and Pay Inflation

Inflation on pay of 2.5% in 2018/19 in respect of the annual award applicable from 1 April 2018 and a provisional estimate of 2% thereafter has been provided for pay within the profile. Inflation on prices has been made in accordance with forecasts of appropriate indexations in respect of contractual commitments. Inflation on non-domestic rates has been provided in accordance with the Government’s forecast. Each 1% variation on major contract prices is equivalent to £120,000.

8 PARTNERSHIPS/CONTRACTS

Partnerships form the basis of an increasing range of the Council’s services and extend from joint activities within a loose working arrangement to complex and significant vehicles for service delivery. The Council welcomes partnerships but will always seek to ensure that:-

• The governance arrangements are in place;
• The financial viability of partners is assured before committing to an agreement;
• The responsibilities and liabilities of each of the partners is clearly laid out in the partnership agreement;
• The accounting arrangements are established before any payments are made;
• The implications of the terms and conditions of any funding arrangements are considered before any monies are accepted; and
• Appropriate exit strategies are in place.

Re-tendered and re-negotiated contracts have been included within the budget as previously agreed by the Cabinet.

Elmbridge is one of four councils who have jointly procured a contract for waste collection, recycling, street cleaning and associated services. The new contract will be outcome based and has delivered significant savings to the Council. These savings have already been included in the 2018/19 Budget.
Elmbridge Borough Council has set up an employee mutual for Building Control Services which became operational on 1 August 2015. The Council has a 20% stake in the mutual and a share of any profit, from year 4, made by the entity. A client-contractor relationship has been established with the objective of minimising any adverse impact on the Council’s financial position in the short to medium term.

The Medium Term Financial Strategy assumes a gradual withdrawal of funding from other partners such as Surrey County Council over the medium term.

9 MEDIUM TERM FINANCIAL STRATEGY

Financial Context 2018/19

In 2018/19 the Council’s net revenue budget requirement to be met by council taxpayers will amount to approximately £13.8 million (net of Business Rates, rental income, interest and fees & charges) as shown below:

<table>
<thead>
<tr>
<th>2016/17</th>
<th>Revenue Budget £m</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>76.4</td>
<td>Gross Expenditure</td>
<td>79.8</td>
</tr>
<tr>
<td>39.8</td>
<td>Less: Housing Benefit</td>
<td>41.3</td>
</tr>
<tr>
<td>2.8</td>
<td>Less: Capital Charges</td>
<td>3.7</td>
</tr>
<tr>
<td>33.8</td>
<td>Gross Budget</td>
<td>34.8</td>
</tr>
<tr>
<td>16.3</td>
<td>Funded by: Rental income, interest, Fees &amp; Charges and other Income</td>
<td>17.8</td>
</tr>
<tr>
<td>2.2</td>
<td>Business Rates Baseline</td>
<td>2.2</td>
</tr>
<tr>
<td>0.2</td>
<td>Transitional Grant [S31 Grant]</td>
<td>-</td>
</tr>
<tr>
<td>0.9</td>
<td>Use of Reserves</td>
<td>0.2</td>
</tr>
<tr>
<td>0.8</td>
<td>Surplus on Collection Fund [Business Rates &amp; Council Tax]</td>
<td>0.8</td>
</tr>
<tr>
<td>13.4</td>
<td>To be met from Council Tax</td>
<td>13.8</td>
</tr>
</tbody>
</table>

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The Council’s expenditure budget is supported by a considerable level of Council Tax income (39%), rental income and other income (48%), as well as by Business Rates (9%). The split between the main services of funding is shown in the chart below:

**Funding Sources for Gross Budget 2018/19**

The Council’s budget position is very sensitive to changes in expenditure such as pay and contracts and to changing investment returns, fees & charges, rental income and Business Rates retained. More than 85% of the expenditure budget is funded by a combination of council tax income, fees and charges and rental income from properties.

The Council currently generates £17.8 million of income, of which £3.8 million relates to investment property rental income which includes rental income from existing and new property purchases. Over the years the focus has been to strengthen the rental income by investing in Property Assets. Since 2012, the Council has invested £70 million which has generated £3.5 million of additional annual gross income, at an average return of 5%.

Fixed rate long term borrowing undertaken in connection with the investment property is £33 million at an average rate of 2.3%.

The key financial issues for the Council that can be drawn from this context are:

- The Council relies more on Council Tax, Rental Income, Business Rates and other income raised locally.
- The Council has a resilient financial base that, whilst not insulating it from the impacts of public spending reductions, will enable it to continue to take a planned medium-term approach to adjusting to the new public sector financial environment.
10 THE MEDIUM-TERM FINANCIAL PLAN

The financial implications of the policies and assumptions identified in this document are set out in the report. This summarises the revenue budget projections over the medium term and includes the savings, increased income and spending pressure proposals reported to Cabinet.

The trend of rising costs and decreasing funding will continue over the next few years and this creates the need for a significant strategic response. Modeling the level of the projected deficit accurately is difficult and becomes increasingly so, given the timescales and uncertainty over the implementation of 100% Business Rates Retention.

The Medium-Term Forecast indicates that the Council faces a budget gap of £3 million over the medium-term. Given the uncertainty and the timing over the Fair Funding Review, Business Rates retention, needs assessment and the baseline reset, the MTFS projections have not been made beyond the year 2021.

Traditionally, when faced with a reduction in revenue funding, Public Sector organisations will look to cut spending, which in reality means cutting services received by residents, unless coupled with improved services. The Council has taken a different approach to this funding decline and has adopted a policy of finding efficiencies through transforming service delivery, for example, partnership working and generating income through the introduction of a more commercial approach, in order to replace a significant proportion of the lost grant. This revenue is then reinvested in the delivery of services, thereby protecting the services valued by our residents.
The Financial Plan, as part of the Medium Term Financial Strategy (MTFS) is shown over a three-year period projecting the budget up to and including 2020/21 as shown below:

**FINANCIAL PLAN 2017/18 TO 2020/21**

**MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

<table>
<thead>
<tr>
<th></th>
<th>2017/18 Budget £'000</th>
<th>2018/19 Budget £'000</th>
<th>2019/20 Projection £'000</th>
<th>2020/21 Projection £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Budget Requirement to fund Services</strong></td>
<td>17,911</td>
<td>17,493</td>
<td>17,120</td>
<td>18,170</td>
</tr>
<tr>
<td><strong>Cost Pressures:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay and Price increases</td>
<td>407</td>
<td>669</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Approved Budget Growth</td>
<td>905</td>
<td>907</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in External Funding</td>
<td>200</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Growth (estimated)</td>
<td>250</td>
<td>250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions Contribution - Triennial valuation</td>
<td>200</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on balances - change</td>
<td>30</td>
<td>(248)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Savings/Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved income +Savings</td>
<td>(1,860)</td>
<td>(1,701)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees &amp; Charges increases</td>
<td>tbc</td>
<td>tbc</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimated Budget Requirement</strong></td>
<td>17,493</td>
<td>17,120</td>
<td>18,170</td>
<td>19,420</td>
</tr>
<tr>
<td><strong>Section 31 Government Grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Homes Bonus</td>
<td>(1,888)</td>
<td>(1,102)</td>
<td>(720)</td>
<td>(720)</td>
</tr>
<tr>
<td>Transitional Grant</td>
<td>(190)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Contributions To/From Reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Homes Bonus Contribution to Reserves</td>
<td>1,521</td>
<td>959</td>
<td>720</td>
<td>720</td>
</tr>
<tr>
<td>Contributions from Interest Equalisation Reserve</td>
<td>(338)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contribution from RSG Equalisation Reserve</td>
<td>(307)</td>
<td>(157)</td>
<td>(150)</td>
<td>(150)</td>
</tr>
<tr>
<td>To/From Earmarked Reserves</td>
<td>75</td>
<td>(15)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Budget after the use of Reserves</strong></td>
<td>16,366</td>
<td>16,805</td>
<td>18,020</td>
<td>19,270</td>
</tr>
<tr>
<td><strong>Cumulative Funding Gap</strong></td>
<td>0</td>
<td>1,574</td>
<td>3,093</td>
<td></td>
</tr>
<tr>
<td><strong>Funded By:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Rates retained</td>
<td>2,174</td>
<td>2,240</td>
<td>2,324</td>
<td>2,325</td>
</tr>
<tr>
<td>Negative Revenue Support Grant</td>
<td>-</td>
<td>-</td>
<td>(1,480)</td>
<td>(1,480)</td>
</tr>
<tr>
<td>Business Rates - Pilot Share</td>
<td>-</td>
<td>-</td>
<td>700</td>
<td>tbc</td>
</tr>
<tr>
<td>Council Tax Collection fund surplus</td>
<td>211</td>
<td>176</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Business Rates - excess over baseline</td>
<td>600</td>
<td>600</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Council Tax income</td>
<td>13,381</td>
<td>13,789</td>
<td>14,252</td>
<td>14,682</td>
</tr>
<tr>
<td><strong>Total Funding available</strong></td>
<td>16,366</td>
<td>16,805</td>
<td>16,446</td>
<td>16,177</td>
</tr>
<tr>
<td>Council Tax Base (assumes 1% growth)</td>
<td>63,415</td>
<td>64,139</td>
<td>64,780</td>
<td>65,430</td>
</tr>
<tr>
<td>Band D Council tax (indicative)</td>
<td>211.00</td>
<td>215.00</td>
<td>220.00</td>
<td>224.40</td>
</tr>
<tr>
<td>Increase (indicative)</td>
<td>1.93%</td>
<td>1.90%</td>
<td>2.32%</td>
<td>2.00%</td>
</tr>
<tr>
<td><strong>Cumulative Funding Gap</strong></td>
<td>0</td>
<td>0</td>
<td>1,574</td>
<td>3,093</td>
</tr>
<tr>
<td><strong>Annual Funding Gap</strong></td>
<td>0</td>
<td>0</td>
<td>1,574</td>
<td>1,518</td>
</tr>
</tbody>
</table>
11 CAPITAL INVESTMENT WITHIN THE MEDIUM-TERM FINANCIAL STRATEGY

The MTFS should not just focus on current income and expenditure. The Council has large asset bases relating to delivery of services. It is vital that these assets are maximised in terms of value to the organisation and every opportunity for rationalisation and improved return, whether in terms of improved financial returns or service capacity is identified and maximised.

The Capital Programme is set in the context of the Council’s priorities and its financial resources. All new projects are assessed in terms of their contribution to the Council objectives and their priority in terms of scarce resources.

The Council reviews its capital spending plans each year and sets a three-year Capital Programme. A key consideration when setting the programme is the projected level of available capital resources and affordability, which is assessed during the budget setting process. Revenue expenditure is concerned with the day-to-day running of the services and capital expenditure is a key element in the development of the Council’s services compared with investment in the assets required to deliver services. Decisions on the Capital Programme have an impact on the revenue budget, for example, in relation to:

- The revenue cost of financing capital, including prudential borrowing.
- The ongoing running costs and upkeep of assets such as buildings and car parks.

The Council’s revenue and capital budgets are integrated with the financial impact of the Proposed Capital Programme, which is reflected in the revenue estimates.

The Council will only invest as long as its capital spending plans are affordable, prudent and sustainable. The fundamental constraint on capital investment by the Council is the scope to afford the financial implications in terms of council tax levels.

Capital Programme/Capital Receipts

The overall level of a fully funded capital programme for 2018/19 has been based on the position set out in reports on the 2018/19 – 2020/21 capital programme and on budget and council tax projections for 2018/19, considered by the Cabinet on this agenda. The estimated impact of financing this level of capital expenditure in accordance with the Council’s Treasury Management Strategy has been reflected in the base budget, which includes the implementation of uncommitted capital projects in line with the level of provision made within the Council’s financial strategy.

Property Investment

Since 2012, the Council has been making prudent, in Borough property purchases. To date, circa £70 million has been invested. As the Council’s property portfolio grows, there is a need to create a balanced portfolio to manage the risks associated with property investments.
A major element of the Council’s income generation drive is its Property Acquisition Strategy, which brings nearly £3.5 million per year from the rent collected from a portfolio of 9 commercial properties. The investment made so far is not just about income generation but also about regeneration, business growth and the ability to provide much needed affordable housing in the Borough. The Capital Programme includes an additional £30 million over a three-year period for property investments. This is in addition to the existing £40 million borrowing limit for property purchases. For example, a £30 million investment in property generating a yield of 5.5%, after allowing for debt repayments and interest payments will contribute circa £300,000 to the revenue budget.

With the continuing reduction in funding from Government and uncertainty over the changes to the way Councils are funded in the future, prudent commercial property investments will help Councils to become self-reliant, and be able to continue providing the much-needed services residents deserve.

12 LOCAL GOVERNMENT ACT 2003: SECTION 25 REPORT BY THE SECTION 151 OFFICER

Statutory declarations on Robustness of Budget Estimates and Adequacy of Reserves

The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and council tax, the Section 151 Officer must report to it on the following matters:

- the robustness of the estimates made for the purposes of the calculations, and;
- the adequacy of the proposed financial reserves.

For Elmbridge Borough Council, the Section 151 Officer is the Strategic Director & Deputy Chief Executive, Sarah Selvanathan.

Robustness of Budget Estimates

The S151 Officer’s overall view is that the budget estimates are sufficiently robust, having been prepared following well-established processes and experienced Officers professional judgement.

The draft budget has been subject to considerable examination by the Council’s Officers. Officers in preparing their budget proposals have considered departments’ base budgets and growth and saving proposals in detail.

- The budget and service planning cycles are in line, so that resources are now aligned with service objectives through the budget setting process.
- The revenue impact of decisions concerning capital spending is considered and incorporated in the budget proposals.
- Any known risks are considered and appropriately budgeted for;
- The Cabinet receives and comments upon the draft budget report before the Council meets to set the budget.
- The Council’s Overview and Scrutiny function (via Performance & Finance Panel) has the opportunity to consider and comment upon the budget proposals to the Council.
In order to assess the adequacy of the non-earmarked element of the general reserves when setting the budget, account must be taken of the strategic, operational and financial risks facing the Council. The risk assessment is in two parts. Firstly, an evaluation was made of the short/medium term risks to the Council, which could lead to budget overspends or shortfall in income levels. Secondly, an evaluation was made of factors that could impact on the Council’s reserves over the longer term.

**Budget Monitoring**

Elmbridge has kept within its overall budget in recent years but there have been under and overspends in individual service areas. This is crucial to protecting the financial stability of the Council. The Council’s gross revenue budget for 2018/19 is £79.8 million and it provides an extremely wide range of very different services, many of them demand-led. In addition, £17.8 million is raised in fees & charges and rental income. As a result, it faces a great variety of risks of adverse budget/income variations. These risks are mitigated by close budget monitoring and regular reporting in year to officers, Council Management Board and various committees. The Revenue Contingency and Rent Risk Reserve is held to mitigate any adverse impact on our rental income from properties.

**Statement on Adequacy of Reserves**

There is a statutory requirement for the Chief Finance Officer (Section 151 Officer) to report on the adequacy of reserves held by the Council when Budget and Council Tax are agreed.

A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit (Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement).

Both the National Audit Office and the Chartered Institute of Public Finance and Accountancy have explicitly recognised that a reserves strategy is very much a local decision to meet local needs, and there is no one “size fits all” strategy which will be suitable for all councils.

The requirement for local authorities to hold financial reserves is acknowledged in statute. Reserves are one component of an authority’s medium-term financial planning – other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. These decisions are inter-linked. This means that, to ensure prudent financial management, some authorities will need to maintain reserves at higher levels than others.

The Section 151 Officer confirms that, for the period of the MTFS the Council has adequate revenue reserves. However, once the implications of Business Rates Retention and Fair Funding Review are known, the Reserves will need to be reviewed for their adequacy.

Setting the level of the general reserve is one of several related decisions in the formulation of the Medium-Term Financial Strategy and of the budget for a particular year. In broad terms, the annual budget is based on forecasts of pay and price changes, levels of income and the quality and quantity of services to be provided. The existence of a general reserve and working balance provides for unexpected changes to those forecasts, and the provision of an appropriate level of general reserve is a fundamental part of prudent financial management over the medium term.
Earmarked and Essential Reserves

These balances are not a general resource but earmarked for specific purposes, considered essential, for example, for the following reasons:

- To provide resilience against fluctuation in Interest Rates (e.g. Interest Equalisation Reserve).
- To provide resilience against future risks such as government funding (e.g. Revenue Risk Reserves, Council Tax Freeze Reserve).
- Holding funds for further Spending plans (e.g. Capital Expenditure Reserve).
- For renewal of operational assets instead of funding through annual budgets, (eg Repairs & Maintenance and health and safety).
- To create policy capacity for one-off priority funding (eg Elmbridge Civic Improvement Fund).
- To provide resilience against fluctuations in Business Rates (eg Business Rates Equalisation Reserve).

Community Infrastructure Levy

To meet existing and future infrastructure requirements as outlined in the Community Infrastructure Levy (CIL) regulations. It is expected that the significant sums of money required to enhance the existing infrastructure, such as car parks, will be able to be funded from the CIL fund.

General Reserve

Having regard to the position outlined in this statement, and recognising in particular the need for the level of the General Fund Reserve to be sufficiently robust to be able to finance unforeseen one-off events, it is considered that the general reserve is currently set at an appropriate and adequate level. It is the view of the Section 151 Officer that the level of the General Fund Reserve should not be forecast to drop below the current level throughout the period of the Council’s medium term financial strategy. The level of General Fund Reserve at £4 million will be 11% of gross expenditure (excluding Housing Benefits and Capital Charges) and equates to 6 weeks of expenditure required to provide Council Services.

A review of the level of the major elements of earmarked reserves has been undertaken, from which it is considered that the estimated levels of those reserves are at an appropriate and adequate level especially given the changes in the way Local Government is being funded. A schedule listing the general reserve, the earmarked reserves and the purpose for which they are held is attached at Appendix G.

There is no statutory definition of a minimum level of reserves and it is for this reason that the matter falls to the judgment of the S151 officer.
Conclusion

Although the level of risk remains significant, taking all of the above into account, it is the view of the Section 151 Officer that the budget proposals recommended by Cabinet will deliver a balanced budget for 2018/19 and develop a longer-term budget that is sustainable so long as:

- Savings and income projections included in the budget are delivered in full.
- Expectations in respect of contract savings are realised.
- Plans are in place to deliver savings/additional income for the period of the MTFS.
- Reserves are used judiciously over the MTFS period.
- The Fair Funding Review and the Business Rates baseline reset doesn’t adversely impact Elmbridge.

Revenue Reserves

In summary, the Council’s revenue reserves position as at 31 March 2019 (Appendix G) is forecast to be £15 million excluding the General Fund Balance and the Community Infrastructure Levy.

<table>
<thead>
<tr>
<th>Reserves Held For Specific Purposes</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essential Reserves &lt;br&gt;(e.g. Repairs &amp; Maintenance, Revenue Contingency, Corporate Restructuring, LABGI, capital expenditure, LPSA)</td>
<td>4.4</td>
</tr>
<tr>
<td>Earmarked for Specific Purposes &lt;br&gt;(e.g. Interest Equalisation, Grant Equalisation, Housing Reform, Bequests, Property Acquisition, ECIF, Business Rates Equalisation, New Homes Bonus)</td>
<td>8.2</td>
</tr>
<tr>
<td>Reserves held for Statutory/Legal purposes (eg. S106, Land Charges, Insurance)</td>
<td>2.4</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
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<table>
<thead>
<tr>
<th>Reserves Held For Specific Purposes</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Infrastructure Levy (CIL)</td>
<td>7.5</td>
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<tr>
<td>General Fund Balance</td>
<td>4</td>
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