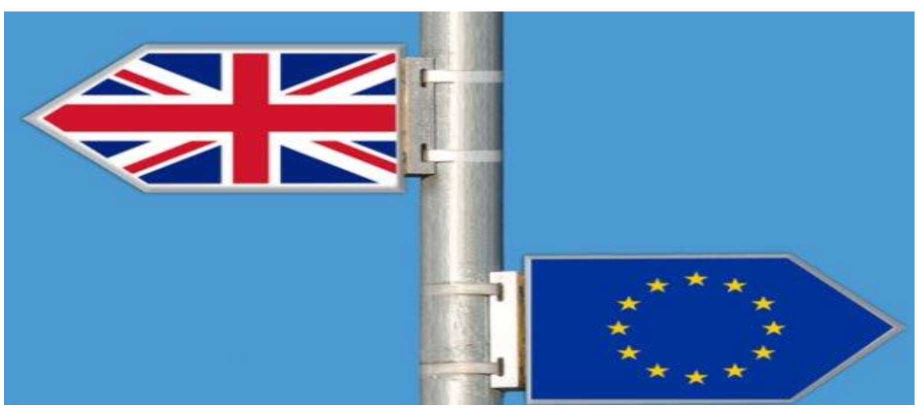
Medium Term Financial Strategy 2019/20 – 2022/23



MEDIUM TERM FINANCIAL STRATEGY
2019/20 – 2022/23

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 continues to operate 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 including Universal Credit. 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 vote to leave the European Union (EU) and the current uncertainty in relation to a 'Brexit Deal' 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 high streets 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 horizon which will help ensure resources are aligned to the outcomes in the Council Plan.

The contents of this strategy is the Council's 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 2019/20 the Council's core grant funding will have reduced by approximately 65% since 2010. Central Government's continued commitment to reduce the overall levels of public debt would indicate significant funding reforms are expected. In order to maintain and strengthen our financial position, the Council will have to consider other ways to generate income and increase efficiency.

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, regeneration 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 2017/18, received an unqualified External Audit opinion. Over the last ten years, the Council has delivered £15 million of savings/additional income, of which £8 million is over the last five years.

The funding estimated to be raised from council tax and the business rates retained over the next three years is not sufficient to cover current level of spend and 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 funding. Action will be required over the 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's vision for the period 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 GOVERNMENT FUNDING AND LOCAL CONTEXT

There are concerns over a lack of clarity in the government consultation on the Fair Funding Review, which will revamp the way in which central government funding is allocated from April 2020. With further consultation on business rates retention, the results of the Spending Review and the outcome of the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets even in the short term.

At the moment it is unclear how much funding there will be from April 2020, how it will be distributed nationally and the means of service delivery. As a result, local authorities will have to make assumptions about the future funding and, in some cases, this will result in completely unnecessary cutbacks to services which could be avoided with more certainty

The Local Government Association (LGA) has called on the government to provide local authorities with 2 exemplifications of further business rates retention and the Fair Funding Review in Spring 2019, rather than the summer or autumn, as currently planned.

Around 40% of the Council's gross expenditure budget relates to providing non-statutory services and it is these services that help provide social value benefits to our residents.

The Council has seen significant year-on-year funding reductions since 2010, with Formula Grant falling from £6.4 million to 2.2 million in 2019/20. The Council was expected to pay a "negative Revenue Support Grant (RSG)" of £1.5 million (65% of our retained Business Rates share) in 2019/20 however, the Government announced this would no longer be required in December 2018. 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 under £1.0 million in 2019/20. At this stage there is no clear indication whether it's likely to continue.

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 Financial Strategy 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 and Business Efficiency – 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 Investments - 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, rental income, 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

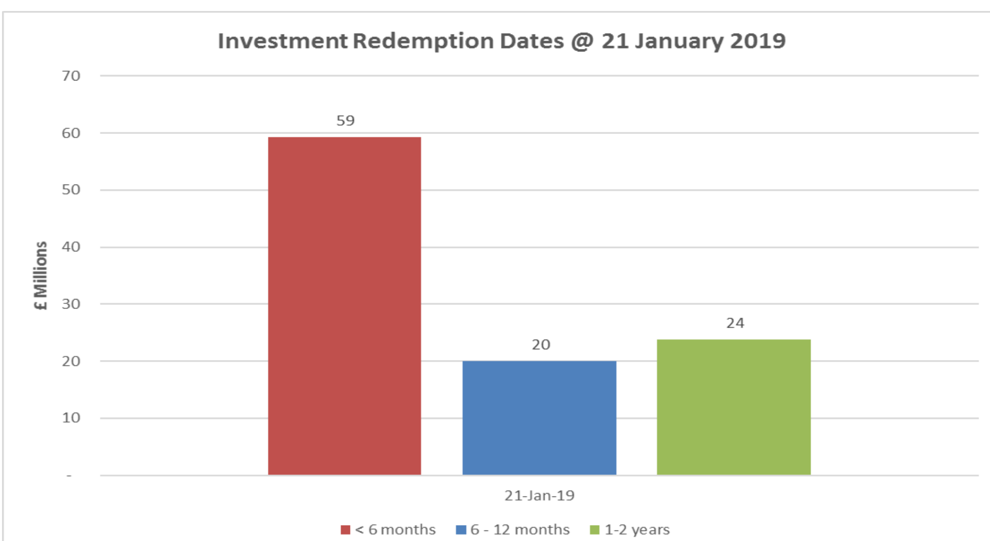
The Council invests it's reserves in a wide range of financial institutions and the investment interest earned is used to support the delivery of services. The major issue for treasury management continues to be the low-level of interest on short-term deposits and the significant difference between short 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 but at low interest rates. 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. Since the economic crash in 2008, the Council has relied on the Interest Equalisation Reserve which has meant that the reserve balance has reduced from £2.3 million to £0.4 million. In such circumstances, the Council would then need to re-evaluate its Medium-Term Financial Strategy and have plans in place to increase the reserve to a reasonable level.

When funds are available and when market conditions allow, Officers 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 21 January 2019 is shown in the following graph shows that 60% of the cash investments are now under 6 months with no investment longer than 2 years which is symptomatic of the market.



5 COUNCIL TAX LEVELS

The Budget for 2019/20 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 the 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. Boroughs and District Councils had been allowed discretion to increase Council Tax by up to £5 per annum or 3%, whichever is the greater for the period up to 2019/20. Taking all relevant considerations into account, the Administration has decided to recommend to Council that the increase in Council Tax in 2019/20 should be set at 2.93% (£6.30 per year), taking the annual total to £221.30 for a Band D equivalent. which is below the maximum level permitted. The proposed increase will position Elmbridge's, Council Tax (excluding Parish's) as the fourth highest of the Boroughs and Districts in Surrey. However, a significant number of properties in parish areas outside of Elmbridge have a higher Council Tax.

6 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 outlined in the Budget report, the government are proposing to introduce significant changes to local government finance from April 2020 which adds considerable uncertainty in projecting the medium-term financial position for the Council. It is expected that the Council's settlement funding assessment will be reduced by government as part of the fair funding review, as government looks to re-allocate resources into high demand services such as social care and will continue to expect local authorities to contribute towards meeting national austerity targets. This is likely to mean that the baseline needs of spend for the Council will reduce and the tariff payable by the Council under the business rates retention could potentially increase from 2020 onwards. In addition, when the new business rate retention reform is implemented in 2020, all previous business rate growth which the Council has benefitted from since 2013/14 will be lost as part of "resetting" the business rate baseline. The impact of increasing the tariff adjustment is that Elmbridge will retain less business rates locally than it does now. The Council currently retains approximately 3.8% of the business rates collected.

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:

- Outcome of the Fair Funding Review;
- 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;
- Ability to increase Fees and Charges and Council Tax Levels; and
- Demand led pressures faced by the County Council which may have a direct or indirect impact on the District.

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.

In setting the Business Rate multiplier for 2019/20, the Government has taken into account the estimated value of appeals it anticipates following the 2017 revaluation exercise. Historically, Government have consistently underestimated the level of appeals following a revaluation exercise. If appeals are higher than Government estimates this will result in a loss of Business Rate income for the Council. The risk of volatility in Business Rate income will increasingly fall on the Council post 2020 under the proposal for local Government to keep 75% of Business Rates. The Business Rates Equalisation Reserve is held to equalise any adverse impact on the Council’s budget arising from such changes.

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.

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 and voids 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	140
Off street Parking	370
Recycling Income	130
Other External Grant Income (including SCC)	100
Property Rental Income	410
Business Rates	1,000
Total	**2,150**

Key actions being taken to manage risks:

- Review of fees and charges and other income generation opportunities across the Council.
- Review level and use of reserves and balances.
- 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 stated “The Council continues to adopt a policy of finding efficiencies through transforming service delivery and income generation to replace reductions in local government grant funding. Bridging the budget gap will clearly need to remain as a key priority for the Council over the medium term”.

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 2018”.

Brexit

Following the referendum in June 2016, the United Kingdom (UK) voted to leave the European Union (EU). In autumn 2018, the government negotiated the withdrawal agreement, a transitional agreement and issued heads of terms for the UK’s relationship with the EU. However, the withdrawal agreement has not been agreed by the Parliament and negotiations are taking place with the EU as to what a “new deal” might look like or whether it leaves without “any” deal.

The financial consequences of leaving the EU without a deal pose a significant risk to the UK economy. The need for, and length of, any further government spending reductions therefore, also pose a significant risk to the medium-term financial strategy of the Council. The Council is also reliant indirectly on EU migrant workers employed by its contractors. The impact of Brexit and risks are currently being considered and plans are in the development stage.

Price Inflation and Pay Inflation

Inflation on pay of 2.3% in 2019/20 in respect of the annual award applicable from 1 April 2019 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 £80,000. There is continued pressure on price inflation due to the BREXIT negotiations.

7 PARTNERSHIPS/CONTRACTS/TRADING COMPANIES

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 Borough Council 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 expected to be received when the year 4 results are delivered.

The Council has established EBC Homes Ltd & EBC Investments Ltd (wholly-owned Housing Companies) to increase the provision of homes of all tenures in the Borough.

The Council is aware of the significant financial pressure faced by Surrey County Council (SCC) due to demand and costs pressures within the social care system. The financial sustainability of the social care system is a nationally recognised problem and the Local Government Organisation has been lobbying government to recognise this and provide more funding to authorities with responsibilities for Social care. Elmbridge Borough Council currently receives approximately £ 0.7 million of funding from SCC for services such as Community services for older people and Waste. This funding has reduced significantly in the last couple of years and is likely to reduce even further in the next few years. There is a significant risk that this funding will eventually cease, if not in 2020, then over the period of the MTFS as SCC looks to deliver its unprecedented scale of service transformation.

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

8 MEDIUM TERM FINANCIAL STRATEGY

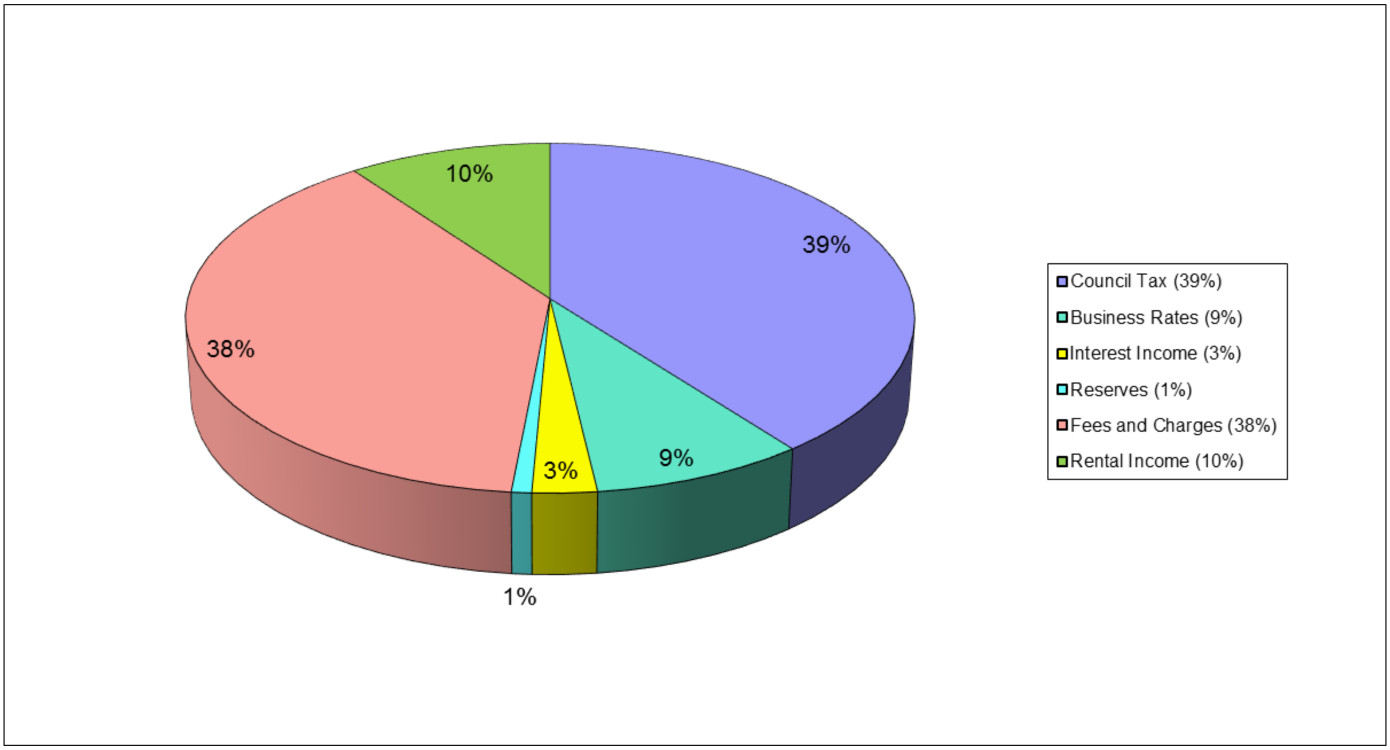
Financial Context 2019/20

In 2019/20 the Council's net revenue budget requirement to be met by council taxpayers will amount to approximately £14.3 million (net of Business Rates, rental income, interest and fees & charges) as shown below:

2018/19	Revenue Budget £m	2019/20
79.8	Gross Expenditure	82.0
41.3	Less: Housing Benefit	40.2
3.7	Less: Capital Charges	4.6
34.8	**Gross Expenditure Budget**	**37.2**
17.8	**Funded by:** Rental income, interest, Fees & Charges and other Income	19.0
2.2	Business Rates Baseline	2.3
0.2	Use of Reserves	0.5
0.8	Surplus on Collection Fund [Business Rates & Council Tax]	1.1
13.8	Council Tax Income	14.3
34.8	**Total Funding**	**37.2**

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

Funding Sources for Gross Budget 2019/20



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 £19 million of income, of which £4.1 million relates to 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 £90 million (£60 million funded from borrowing) which has generated £3.8 million of additional annual gross income, at an average return of over 4%.

Fixed rate long term borrowing undertaken in connection with the investment property is £60 million at an average rate of 2.4%

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.

9 THE MEDIUM-TERM FINANCIAL PLAN (2019/20 – 2022/23)

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 outcome of the Fair Funding Review and 75% Business Rates retention.

The Medium-Term Forecast indicates that the Council faces a budget gap of £4 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 are only indicative at this stage. Once the Fair Funding Review is completed the Financial Plan will require updating.

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. 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 below:

FINANCIAL PLAN 2019/20 TO 2022/23

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

	2019/20 Budget £'000	2020/21 Projection £'000	2021/22 Projection £'000	2022/23 Projection £'000
Net Budget Requirement to fund Services	**17,088**	**18,105**	**19,005**	**19,905**
Cost Pressures:				
Pay award including increments	450	300	350	350
Contract price increases	362	350	350	350
Approved Budget Growth	858			
Reduction in External Funding (SCC)		150	150	100
Budget Growth anticipated		200	200	200
Pensions Contribution -Triennial valuation		200		
Interest on balances -change	(100)	(100)	(50)	(50)
Investment Property related costs	170			
Savings/ Income:				
Approved income +Savings	(265)			
Fees & Charges increases	*(395)*	*(200)*	*(100)*	
Other	(63)			
Estimated Budget Requirement	**18,105**	**19,005**	**19,905**	**20,855**
Section 31 Government Grants				
New Homes Bonus	**(958)**	**(600)**	**tbc**	**tbc**
	-	**-**	**-**	
Contributions To/(From) Reserves				
New Homes Bonus Contribution to Reserves	**844**	**600**	**tbc**	**tbc**
Contribution from Grant Eqalisation Reserve	**(157)**	**(150)**	**(150)**	**(150)**
To/(From) Earmarked Reserves	**(166)**			
Net Budget after the use of Reserves	**17,668**	**18,855**	**19,755**	**20,705**
Cumulative Funding Gap	**0**	**2,037**	**3,180**	**4,209**
Funded By:				
Business Rates retained	2,291	2,290	2,290	2,290
Negative Revenue Support Grant		(1,290)	(1,790)	(2,290)
Business Rates - Share of Growth	500	*500*	*350*	350
Council Tax Collection fund surplus	54	100	100	100
Business Rates - release from reserve	500	500	500	500
Council Tax income	14,323	14,718	15,125	15,546
Total Funding available	**17,668**	**16,818**	**16,575**	**16,496**
Council Tax Base (assumes 1% growth)	**64,720**	**65,205**	**65,695**	**66,200**
Band D Council tax (indicative)	**221.30**	**225.72**	**230.23**	**234.83**
Increase (indicative)	**2.93%**	**2.00%**	**2.00%**	**2.00%**
Cumulative Funding Gap	**0**	**2,037**	**3,180**	**4,209**
Annual Funding Gap	**0**	**2,037**	**1,143**	**1,029**

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

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

The overall level of a fully funded capital programme for 2019/20 has been based on the position set out in reports on the 2019/20 – 2021/22 capital programme and on budget and council tax projections for 2019/20, 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 £90 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 £3.8 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 £38 million over a three-year period for property investments. 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.

11 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 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.

Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Strategic Director & Deputy Chief Executive is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to:

- Manage the impact of funding reductions over a longer period.
- Invest in projects that allow services to be delivered cheaper.
- Take "one-off hits" for the council without the need to further reduce service budgets.
- Provide capacity to absorb any non-achievement of planned budget reductions in each year.
- To temporarily roll over unused portions of grants that can legally be used later.
- To insure against major unexpected events.

- To protect against general risk i.e. saving up for unexpected events.

- To guard against emerging specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

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 officer's 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 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.

<u>Budget Monitoring</u>

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 2019/20 is £82 million and it provides an extremely wide range of very different services, many of them demand-led. In addition, £19 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

Reserves Policy

The Council's policy on reserves is outlined within the MTFS principles as follows:

- The Council will maintain its general reserve at a minimum of 4 million to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

- The council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

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 just 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.

Review of Reserves

A review of reserves is undertaken twice a year and covers:

- The purpose for which the reserve is held.
- An assessment of the appropriate level of the reserve to meet potential future liabilities, in line with the Council's reserves policy and aligned to the risk management framework.
- A process and timescale for future reviews to ensure continuing relevance and adequacy.

The 2017/18 Revenue Outturn position was reported to Cabinet in July 2018, showing the balance of reserves including ear marked reserves held for specific purposes. An explanation of each reserve and balances as at 31 March 2018 can be found in the council's audited statement of accounts for 2017/18.

In support of the reviewed MTFS position a full review of reserves has also been carried out and it was concluded that no further changes are required at this time.

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.

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 (Business Rates Equalisation Reserve and Grant Equalisation Reserve).
- To provide resilience against the property rentals including voids (eg Revenue Risk Reserve).
- For renewal of operational assets instead of funding through annual budgets, (Capital Expenditure and Repairs & Maintenance Reserve).
- 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 (CIL)

To meet existing and future infrastructure requirements as outlined in the 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

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.

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 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 10% of gross expenditure (excluding Housing Benefits and Capital Charges) and equates to 5.5 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.

Revenue Reserves

In summary, the Council's revenue reserves position as at 31 March 2020 (Appendix G) is forecast to be £17.8 million excluding the General Fund Balance and the Community Infrastructure Levy.

	£m
Essential Reserves (e.g. Repairs & Maintenance, Revenue Contingency, Corporate Restructuring, LABGI, capital expenditure, LPSA)	3.0
Earmarked for Specific Purposes (e.g. Interest Equalisation, Grant Equalisation, Housing Reform, Bequests, Property Acquisition, ECIF, Business Rates Equalisation, New Homes Bonus)	12.5
Reserves held for Statutory/Legal purposes (eg. S106, Land Charges, Insurance)	2.3
Total	**17.8**

Community Infrastructure Levy (CIL)	12
General Fund Balance	4

Financial Resilience and the adequacy of reserves and balances

During 2018, and following the Northamptonshire s114 notice, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a financial resilience index in response to concerns within the local government sector and central government about the financial resilience of some local authorities following the significant funding reductions incurred by the sector since 2010.

The financial resilience index shows how the Council compares to other similar authorities across basket of financial indicators based on its 2017/18 accounts. Elmbridge compares well on the analysis to other authorities with most indicators showing that the Council is at low risk of financial stress. Key determinants of the Council's position are its level of reserves, a low reliance on government grant and a high reliance on council tax, net retained business rates and other locally raised revenue to finance expenditure on delivery of services. The CIPFA financial resilience index is shown below.

Elmbridge

	Min	Authority	Max
Reserves Depletion Time	0.00	100.00	100.00
Level of Reserves	16.6%	258.9%	300.0%
Change in Reserves	-100.0%	18.3%	360.8%
Unallocated Reserves	0.0%	28.4%	300.0%
Earmarked Reserves	6.4%	230.5%	300.0%
Change in Unallocated Reserves	-84.5%	0.0%	400.5%
Change in Earmarked Reserves	-63.2%	21.0%	1946.3%
Grants to Expenditure Ratio	0.0%	0.0%	24.8%
Council Tax Requirement / Net Revenue Expenditure	37.0%	95.4%	100.0%
Retained Income from Rate Retention / Net Expenditure	2.1%	33.5%	100.0%
Auditors VfM Assessment		**Unqualified**	

Conclusion

The Council has an ambitious corporate plan and continues to face many challenges over the period of the MTFS. Demand for services will continue to increase and the continued reduction in Government funding mean that there is a gap between the projected expenditure and funding available which will need to be eliminated through savings and/or additional income.

The Council starts the 2019/20 financial year in a good financial position, it has a strong balance sheet, high asset base, sufficient level of reserves, good spread of income streams, significant level of liquidity and a reasonable gearing ratio at <30%.

However, in order to maintain our strong financial position and financial stability into the medium to long term the Council needs to ensure that savings and efficiencies are identified to have a balanced budget and sufficient levels of reserves are maintained.

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 2019/20 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.