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Simon Young, Solicitor
Head of Legal and Democratic Services



FINANCIAL POLICY PANEL

Thursday 25 May 2017 at 7.30 pm

Committee Room 2 - Epsom Town Hall

The members listed below are summoned to attend the Financial Policy Panel meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Eber Kington (Chairman)
Councillor Richard Baker
Councillor John Beckett
Councillor Neil Dallen

Councillor Graham Dudley
Councillor Omer Kokou-Tchri
Councillor Barry Nash
Councillor Vince Romagnuolo

Yours sincerely

A handwritten signature in black ink, appearing to read "S Young".

Head of Legal and Democratic Services

For further information, please contact Fiona Cotter, tel: 01372 732124 or fcotter@epsom-ewell.gov.uk

AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting

2. FINANCIAL PLANNING 2018/19 (Pages 3 - 16)

This report seeks guidance on the approach to be used in preparing the budget for 2018/19.

3. MINUTES (Pages 17 - 20)

The Panel is asked to confirm the Minutes of the Meeting of the Panel held on 2 February 2017 (attached) and to authorise the Chairman to sign them.

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FINANCIAL PLANNING 2018/19

<u>Report of the:</u>	Head of Financial Services
<u>Contact:</u>	Lee Duffy
<u>Urgent Decision?(yes/no)</u>	No
<u>If yes, reason urgent decision required:</u>	N/A
<u>Annexes/Appendices (attached):</u>	Annexe 1: Objectives of the Medium Term Financial Strategy Annexe 2: Working Draft of the Efficiency Plan 2018 - 2020 Annexe 3: Budget Reporting Timetable
<u>Other available papers (not attached):</u>	Four year Financial Plan 2016-2020 Budget Book 2017/18

REPORT SUMMARY

This report seeks guidance on the approach to be used in preparing the budget for 2018/19.

RECOMMENDATION (S)

That the Panel confirms:-

- (1) the approach to be taken to the 2018/19 budget review as set out in this report;**
- (2) the Panel provides guidance on the revised four-year Financial Plan;**
- (3) the budget reporting timetable in Annexe 3.**

Notes

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council agreed the Financial Plan 2016-20 at the February 2016 budget meeting.
- 1.2 The Strategy and Resources Committee agreed a Corporate Plan which included a key priority 'Managing Resources' in April 2016.

2 Background

- 2.1 The Medium Term Financial Strategy (MTFS) aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan. This report considers the steps needed to achieve balanced budgets during the term of the financial strategy.
- 2.2 The MTFS will be used to provide a framework for the annual budget review. The key components of the MTFS are set out in **Annexe 1**.

3 Financial Projections

- 3.1 The current MTFS anticipates the need for savings of £1.6 million over the next two years. The assumptions used in preparing the forecast are clearly stated in the Financial Plan. As with any financial forecast, there is scope for position to be better or worse than anticipated.
- 3.2 The financial projections will be updated as the impact of new regulation and funding changes become clearer. It is, however, anticipated that the focus of the budget review will be on the delivery of budget saving, either through cost reduction or income generation.

4 Current Budget Position

- 4.1 The Council is in the process of closing last year's accounts. The position is that the revenue working balance will slightly increase by £160,000 to approximately £3.3 million.
- 4.2 The final expenditure figures for 2016/17 will be reported to Strategy and Resources Committee at the end of June and underspends on some budgets may provide opportunities to identify on-going savings.
- 4.3 There is no planned use of the working balance in 2016/17 although £500,000 of New Homes Bonus is being used to help fund general fund services. However the current Financial Plan shows that the level of funding from New Homes Bonus available to support the general fund will reduce significantly from 2019/20.
- 4.4 Based on the provisional outturn figures for last year, the highest risk to the 2017/18 budget appears to be achieving anticipated levels of income for areas such as planning and building control and any further unbudgeted reductions to external funding.

5 Budget Forecast for 2018/19

- 5.1 The following forecast for 2018/19 has been extracted from the Four Year Financial Plan included within the Budget and Council Tax report (February 2017):-

	2018/19 Forecast £000	2017/18 Budget £000
Net Cost of Service b/f (excluding use of New Homes Bonus , interest on balances)	8,365	
Pay & Prices Increases - Prices	+ 180	
Pay & Price increases – Pay	+ 190	
Contingency for Service Changes and Pressures	+ 395	
IT and bin replacement transferred from capital	+200	
Loss of Housing Benefit Admin Grant	+45	
Increase in provision for property maintenance	+50	
Impact of latest benefit reforms	+100	
Increases in Fees & Charges	- 200	
Net change in contributions form reserves/provisions	+ 225	
Annual Savings Target	-626	
Forecast Net Cost of Services	8,529	8,365
Interest on Balances	-220	-220
Use of New Homes Bonus	-500	-500
Transfer to / from Working Balance	0	0
Forecast Net Expenditure	7,809	7,645
Transitional Grant	0	83
Business Rates Forecast	1,558	1,527
Council Tax Income Forecast	6,251	6,045
Collection Fund Deficit	0	-10
External Funding	7,809	7,645

- 5.2 The annual savings target for 2018/19 of £626,000 included within the Financial Plan comprises of £588,000 which has been agreed in principal by the individual service committees and £38,000 still to be identified.

5.3 A breakdown of the £588,000 is as follows:

	£'000	Committee
Restructuring of Senior Management Team	60	S&R
Disposal of Ebbisham Centre	52	C&W/S&R
Operational efficiencies and income generation	476	All
Total Identified Savings	588	

5.4 The following table shows the main assumptions that were used in preparing the forecast for 2018/19 in the Financial Plan:-

ASSUMPTIONS USED	BASE £000	2018/19 Forecast
General Inflation - prices	9,500	+ 2.0%
Pay bill growth	11,000	+ 1.6%
Fees & Charges allowance: annual increased yield on discretionary charges	- 6,600	+ 3.0%
Interest rate used (average return on investments)		1.25%
Reduction in Core Government Funding / Retained Business Rates	- 52	- 3.2%
Increase in Council Tax Base (Band D equivalent properties)	32,324 (properties)	+ 0.75%
Increase in Council Tax income	- 6,045	£5 increase on Band D equivalent property

6 Service and Financial Planning

6.1 It is anticipated that further savings should be achievable to address the gap and the areas that officers expect these to come from are:

6.1.1 Efficiency Savings – Officers will continue to look at how services are delivered to maximise efficiency and the use of IT.

6.1.2 Income generation – Officers will consider options to generate significant income streams for the council.

6.1.3 A base review, this entails reviewing the year end position for 2014/15, identifying any potential savings, additional cost pressures and areas where savings can be developed. These will be used to update the four year financial plan.

6.1.4 Property Related – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.

6.1.5 Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.

7 2018/19 Budget Timetable

7.1 The proposed revenue reporting timetable is contained at **Annexe 3**.

7.2 The timetable reflects the normal budget review process and will need amending if a more comprehensive corporate service review is required.

7.3 Prior to the Budget Targets being set by Strategy and Resources Committee in September the Director of Finance and Resources will update the four year financial forecast based on the current level of service provision.

7.4 The following review of resources will be carried out by September to assist financial planning for 2018/19:-

7.4.1 Any changes to external funding;

7.4.2 A revised forecast on business rate income under the business rate retention scheme;

7.4.3 A forecast of council tax income;

7.4.4 The Council's financial standing following close of accounts including a review of reserves and provisions

7.4.5 A summary of income from fees and charges across all council services

8 Financial and Manpower Implications

8.1 The financial outlook for 2018/19 was contained in the Four Year Financial Plan 2016-2020 and is summarised in this report.

8.2 It is inevitable that pressure will remain on all areas of expenditure, including the staff budget. The efficiency programme is based on a rolling programme of cost review and may be realisable through natural turnover and without compulsory redundancy, dependent upon the actual level of external funding available to the Council.

8.3 The staffing impact of any service changes will need to be considered where service options are put forward for consideration.

- 8.4 The Council has adequate resources to carry out a budget review supporting the delivery of the cost reduction plan. Should the Council require a more comprehensive review of services additional resources and expertise may be required.

9 Legal Implications (including implications for matters relating to equality)

- 9.1 ***Monitoring Officer's comments:*** *There are no direct legal implications arising from this report.*

10 Risk Assessment

- 10.1 A high level of risk to Council finances has arisen from the resultant public sector spending cuts. The main risks for next year are set out in the 2017/18 budget report.
- 10.2 The longer term financial risks are contained in the Four Year Financial Plan 2016-2020.

11 Conclusion and Recommendations

- 11.1 The Council has agreed financial targets to achieve a balanced budget in 2018/19. After year-on-year of funding cuts the Council has become more adept at managing on reduced financial support from Central Government however the financial challenges have not diminished.
- 11.2 Projections for 2018/19 indicate that £626,000 of savings will be required to achieve a balanced budget for next year, with £588,000 of these savings already identified it leaves £38,000 still to be found.
- 11.3 The four year budget forecast will be updated in September 2015 and the Panel will receive a full update on the Council's finances, including revenue and capital reserves and provisions.
- 11.4 It is recommended that cost reduction through efficiencies, income generation and service expenditure reviews are used as the main tools to achieve a balanced budget in 2018/19.

WARD(S) AFFECTED: (All Wards);

<p align="center">KEY COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY 2016-2020</p>

<p>The Council's Medium Term Financial Strategy sets out the approach that the Council has agreed to manage its finances.</p>

<p align="center">COUNCIL TAX</p>
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- | |
|---|
| <ul style="list-style-type: none"> • Ensure that Council Tax stays below the average of the Surrey Districts |
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<p align="center">BUDGET POSITION AND REVENUE RESERVE</p>
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| <ul style="list-style-type: none"> • Produce a balanced revenue budget each year |
| <ul style="list-style-type: none"> • Maintain a prudent level of strategic reserves and a minimum of £1 million in Corporate Projects Reserve |
| <ul style="list-style-type: none"> • Utilise reserves pro-actively to manage major risks to the Council's finances |
| <ul style="list-style-type: none"> • Maintain a minimum working balance of £2.5 million at 31 March 2020 |

<p align="center">INCOME</p>

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| <ul style="list-style-type: none"> • Increase income from fees and charges by 6% in 2016/17 and 3% per annum thereafter |
| <ul style="list-style-type: none"> • Maintain charging policies for each service |
| <ul style="list-style-type: none"> • Manage risks to central government funding and business rate retention |
| <ul style="list-style-type: none"> • Maintain high collection rates for council tax and business rates |
| <ul style="list-style-type: none"> • Make prudent investment of reserves and cash balances |
| <ul style="list-style-type: none"> • Generate increased income from the external use of Council assets |
| <ul style="list-style-type: none"> • Optimise the use of Council assets, realise capital receipts from sale of surplus assets |

<p align="center">INVESTMENT IN SERVICES</p>

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| <ul style="list-style-type: none"> • Use Annual Service Targets to allocate resources to deliver the Council's Priorities |
| <ul style="list-style-type: none"> • Prioritise capital investment to ensure retained property is fit for purpose |
| <ul style="list-style-type: none"> • Maximise the use of external funding opportunities to deliver improvements to the community infrastructure, including affordable housing |
| <ul style="list-style-type: none"> • Deliver the three year capital programme of £2.5 million |
| <ul style="list-style-type: none"> • Maintain a minimum uncommitted level of capital reserves of £1 million at 31 March 2020 |

<p align="center">EFFICIENCY</p>

- | |
|---|
| <ul style="list-style-type: none"> • Review services to ensure they continue to provide value for money |
| <ul style="list-style-type: none"> • Achieve a reduction in operating costs through smarter working |
| <ul style="list-style-type: none"> • Reduce the subsidy of Council occupied properties |
| <ul style="list-style-type: none"> • Increase the efficiency and resilience of the organisation through investment in staff and technology |
| <ul style="list-style-type: none"> • Deliver savings so as to improve the forecast budget position by £3.2 million by 2019/20. |

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UPDATED EFFICIENCY PLAN - 2018/19 to 2019/20

	2018/19 £'000	2019/20 £'000	Total £'000
Operational efficiencies and income generation	405	324	729
Strategy & Resources Committee			
Restructuring of Senior Management Team	60		60
Environment Committee			
Cease sweeping up highway verge cuttings after cutting	52		52
Community & Well-Being Committee			
Issuing of licences for professional users of parks	10		10
Allotments – self management	4		4
Review of operation of parks		77	77
Introduce vending in parks	5	5	10
Venues Service Review	52		52
Reduction in homelessness costs through new properties		122	122
Total Identified Savings	588	528	1,116
Unidentified savings Target	38	399	437
Forecast Total Savings Required to Deliver Balanced Budget	626	927	1,553

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REVENUE BUDGET PLANNING 2018/19 - REPORTING TIMETABLE

MONTH	TOPIC	REPORT TO	OBJECTIVE
MAY 2017	Financial Planning for 2018/19	Financial Policy Panel 25 May 2017	<ul style="list-style-type: none"> • Agree approach to Service & Financial Planning in the annual budget review • Confirm budget reporting timetable for 2018/19
JUNE 2017	2016/17 Final Accounts	Strategy & Resources Committee 27 June 2017	<ul style="list-style-type: none"> • Report outturn figures for last year and financial position as at 31 March 2017 • Agree year end transfers to/from strategic reserves
SEPT 2017	Budget Targets 2018/19 Audited Financial Statements	Financial Policy Panel 12 September 2017 and Strategy & Resources Committee 26 September 2017	<ul style="list-style-type: none"> • Review of Revenue and Capital Reserves • Update of Four Year Budget Forecast • Set Budget Targets for 2018/19
OCT 2017	Service Budget Planning Reports	Community & Wellbeing Committee 3 October 2017 Environment Committee 10 October 2017	Guidance on the preparation of service budget reports
NOV 2017	Service Budget Planning Reports	Strategy & Resources Committee 28 November 2017	Guidance on the preparation of service budget report
DEC 2017	Budget Update	Financial Policy Panel 5 December 2017	Update on budget preparation and local government funding
JAN 2018	Service Estimates	Community & Wellbeing Committee 23 January 2018 Environment Committee 30 January 2018	Recommend service budgets to Council

FINANCIAL POLICY PANEL
25 MAY 2017

MONTH	TOPIC	REPORT TO	OBJECTIVE
FEB 2018	Service Estimates	Strategy & Resources Committee 1 February 2018	Recommend service budgets to Council
	Local Govt. Finance Settlement	Financial Policy Panel 6 February 2018	Guidance on Council Tax Options following announcement of grant settlement / localisation of business rates
	Budget Meeting	Council 20 February 2018	Update of MTFS Council Tax and Budget decisions
MARCH 2018	Service Plans	Community & Wellbeing Committee 20 March 2018	Update Service Plans and approve Annual Service Targets for 2018/19
		Environment Committee 37 March 2018	
APRIL 2018	Service Plans	Strategy and Resources Committee 17 April 2018	Update Service Plans and approve Annual Service Targets for 2018/19

CAPITAL PROGRAMME REVIEW 2017/18 - REPORTING TIMETABLE

MONTH	TOPIC	REPORT TO	OBJECTIVE
JUNE 2016	Final Accounts 2015/16	Strategy & Resources Committee 28 June 2016	<ul style="list-style-type: none"> To report final capital spend for 2015/16 and commitments on uncompleted schemes Nominate members of Capital Member Group
SEPT 2016	Budget Targets 2017/18	Financial Policy Panel 13 September 2016 Strategy & Resources Committee 27 September 2016	Guidance on capital strategy
OCT 2016	Section 106 Funds	Financial Policy Panel 27 October 2016	<ul style="list-style-type: none"> Identify funds available from Section 106 planning agreements Forecast future receipts
DEC 2016	Capital Investment Programme Funding	Financial Policy Panel 6 December 2016	Advice on resourcing capital programme in 2017/18
JAN 2017	Capital Project Appraisals	Policy Committees 17 - 31 January 2017	Recommend capital schemes to Council
FEB 2017	Capital Project Appraisals	Strategy & Resources Committee 7 February 2017	Recommend capital schemes to Council
	Budget 2016/17: Capital Programme	Financial Policy Panel 2 February 2016 Council 11 February 2016	Approve capital programme for 2016/17 and update provisional programme 2017-2019.
MARCH 2017	Publish Capital Programme		

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**Minutes of the Meeting of the FINANCIAL POLICY PANEL
held on 2 February 2017**

PRESENT -

Councillor Eber Kington (Chairman); Councillors Richard Baker, John Beckett, Omer Kokou-Tchri, Barry Nash, Keith Partridge and Vince Romagnuolo

Absent: Councillor Graham Dudley

Officers present: Kathryn Beldon (Director of Finance and Resources), Lee Duffy (Head of Financial Services), Brian Thompson (Interim Head of Financial Services) and Fiona Cotter (Democratic Services Manager)

17 DECLARATIONS OF INTEREST

No declarations of interest were made by councillors regarding items on the Agenda.

18 2017/18 BUDGET AND COUNCIL TAX REPORT PRESENTATION

The Panel received and considered a report which provided an update on the preparation of the budget for 2017/18 following the announcement of the provisional local government finance settlement. The report sought any final guidance from the Panel prior to the preparation of the 2017/18 Budget and Council Tax report for the Council meeting on 14 February 2017.

The report set out the overall budget targets for 2017/18, agreed at Strategy and Resources Committee on 27 September 2016. It was highlighted that, whilst provision had been made for a 1% increase in pay at that time, the estimates had been prepared on the basis of a 1.5% pay award, subject to the agreement of the Strategy and Resources Committee on 7 February 2017.

There were still certain external financing income levels that needed to be finalised, such as the actual local government finance settlement. However, the Head of Financial Services confirmed that it was unlikely that the final local government settlement for 2017/18, including revenue support grant, would be different to the provisional settlement. The Council had signed up to a fixed four year settlement but this still meant a 22.3% reduction in funding in 2017/18 and a tariff adjustment of £624,000 in 2019/20. However, there was no evidence to suggest that those authorities that had not accepted a four year settlement were in any better position. The Council had voiced its concerns to its MP regarding the tariff adjustment and the Panel expressed its frustration at the fact that the

Council was effectively being penalised for its ability to raise income from Council Tax with its core spending power being reduced by 7.4% in 2017/18.

The Council would continue to benefit from additional funding from the New Homes Bonus scheme but this source of funding was expected to reduce dramatically over the next couple of years with the introduction of a revised scheme. For 2017/18, approximately £1,054,000 of New Homes Bonus would be transferred to the Corporate Projects Reserve for funding capital or corporate projects with £500,000 allocated to help fund services. Whilst the Council had been prudent in not relying too heavily on this grant to help fund services, the revised four year forecast nevertheless anticipated this source of funding to fall below the £500,000 annual planned use of NHB originally built into the Medium Term Financial Strategy, to around £200,000, by 2020/21.

No use of working balances was currently anticipated. However there were a number of risks to this assumption arising from unsettled budget items, including the pay settlement, currently included at 1.5% but which was yet to be decided by the Strategy and Resources Committee and the Council Tax had yet to be set. For financial planning purposes, the Medium Term Financial Strategy included an annual council tax increase of £4.95 for a Band D equivalent – the maximum permitted under current capping limits. This equated to a 2.72% rise or 10 pence per week and would support service delivery.

The Medium Term Financial Strategy anticipated that savings of £3.2 million would be required between 2016 and 2020. The Efficiency Plan specified where and in which year the total £3.2 million needed to be achieved. Although progress had been made to reduce the level of unidentified savings required to balance the budget by 2019/20 to £436,000 there was still work to be undertaken to achieve this objective. In particular, the excellent work done in reducing homelessness costs was applauded. Additional income from the acquisition of commercial properties of £172,000 had also been incorporated into the plan but it was stressed that it was prudent to work towards finding around £500,000 to mitigate any other pressures not yet apparent.

In terms of Business Rates, the latest forecast was that the Council would collect around £24 million in rates, of which the Council could expect to retain around £1.5 million following various deductions. The safety net threshold for 2017/18 was estimated at £1,226,000 compared to the £1.5 million used as income in the draft estimates. This limited the exposure of losses to £301,000 next year compared to the estimate used in the Budget Book. Again, the Panel expressed frustration at the funding formula which meant that the Council did not retain all of the income generated from business growth in the Borough.

Accordingly, the Panel:

- (1) Noted the provisional Government financial settlement and changes to the criteria for the award of New Homes Bonus grant and its impact on future funding;

- (2) Noted the latest position on Retained Business Rates and the funding available for 2017/18;
- (3) Supported the assumption that there would be no use of working balances (revenue reserves) in the 2017/18 budget;
- (4) Agreed to support a recommendation to Council of a Council Tax increase of £4.95 for a Band D equivalent property;
- (5) Noted the updated four year Financial Plan and Efficiency Plan (Cost Reduction Plan).

19 MINUTES

The Minutes of the meeting of the Financial Policy Panel held on 6 December 2016 were agreed as a true record and signed by the Chairman.

The meeting began at 7.30 pm and ended at 8.21 pm

COUNCILLOR EBER KINGTON (CHAIRMAN)

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