

## **FINANCIAL PLANNING 2020/21**

<b>Head of Service/Contact:</b>	Lee Duffy, Chief Finance Officer
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	<b>Annex 1</b> – Budget Timetable
<b>Other available papers (not attached):</b>	Four Year Financial Plan 2016-2020 Budget Book 2019/20

### **Report summary**

**This report seeks guidance on the approach to be used in producing the Council's Medium Term Financial Strategy for 2020-24 and preparing the budget for 2020/21.**

### **Recommendation (s)**

**That the Panel confirms:-**

- (1) The approach to be taken to the 2020/21 budget review as set out in this report;**
- (2) That officers work with Policy Committee Chairmen, as set out in section 8 of this report, to bring forward service saving options, in addition to savings already targeted; and**
- (3) The budget reporting timetable in Annex 1.**

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

- 1.1 The priorities in the Corporate Plan will be reviewed by the Council prior to the preparation of a new Corporate Plan for 2020-2024.
- 1.2 The Medium Term Financial Strategy comprises a key supporting document to the Council's Corporate Plan.

# Financial Policy Panel

## 18 June 2019

### **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 report proposes revenue and capital budget reporting timetables for preparing the new Medium Term Financial Strategy and the 2020/21 budget.
- 2.3 The Council will review its overall financial position and agree a new MTFS including a Four Year Financial Plan for 2020-24 prior to agreeing a budget for 2020/21.
- 2.4 This report proposes;-
  - 2.4.1 A framework for the 2020/21 budget review, and
  - 2.4.2 A programme of medium term service and financial planning.

### **3 Financial Position 2018/19**

- 3.1 The Council has produced unaudited accounts for 2018/19. The draft final revenue outturn for 2018/19 shows that income exceeded expenditure by £68,000. A contribution for this amount has been made to the revenue working balance and as at the end of 2018/19 the balance on this reserve was £3.4 million.
- 3.2 The Council had an approved capital programme of £6.7 million for 2018/19 and spent c£1.8m with the majority of the unspent capital programme carried forward in to 2019/20. The level of uncommitted capital reserves stood at £3.2m at the end of 2018/19.
- 3.3 More detail on the Council's financial performance for 2018/19 will be provided in the Final Accounts report to Strategy and Resources Committee at the end of July.
- 3.4 In 2018/19, the Council participated in a Surrey-wide pilot of central government's 100% business rates retention scheme. The pilot was successful in generating additional business rates retention across the county, with EEBC recognising £3.9m of business rates income for the year, compared to budgeted income of £1.5m. This resulted in a one-off gain for the year of £2.4m, of which £1.6m relates principally to a partial unwinding of the business rates appeals provision, which had been set-aside in a prior year to cover potential future appeals against business rate bills, most notably from NHS properties.

# Financial Policy Panel

## 18 June 2019

- 3.5 Business rate regulations require this £1.6m to be retained in the collection fund until 2020/21, when it will become accessible by the Council. However, it must be noted that a number of business rates appeals, including the NHS claim, are still unresolved, meaning these funds may still be required in future to cover appeals should they be successful.
- 3.6 The remaining £0.8m from the gain was transferred to the Business Rates Equalisation Reserve, with the majority of the reserve expected to be required to offset potential future reductions in business rates income, which may arise from central government's ongoing Fair Funding Review.
- 3.7 The use of the gain from the Pilot to mitigate the impact of the Fair Funding Review on the Council's funding was supported by Financial Policy Panel on the 5<sup>th</sup> February and will be a recommendation to Strategy & Resources Committee on 30<sup>th</sup> July.

### **4 Budgeted Position for 2019/20**

- 4.1 The 2019/20 budget provides a good platform for budget planning. The service estimates, as agreed by Council in February this year had no use of working balances and no use of New Homes Bonus grant to fund services and the Council was able to maintain £3m of working balances.
- 4.2 The approved budget included a £100,000 contribution from revenue to assist in the funding of the annual capital programme.
- 4.3 The funding position included within the Budget Book did not reflect the financial benefit received from being in the Retained Business Rates pilot in 2018/19, as any gain will be set-aside in reserves to mitigate the impact of the 'Fair Funding Review'.

### **5 Negative Revenue Support Grant and Fair Funding Review**

- 5.1 Since 2008 this Council has seen a steady decline in its core funding from Central Government, which is made up of retained business rates, new homes bonus and revenue support grant.
- 5.2 In February 2016 this Council agreed to the Government's Four Year settlement and this covered the financial years 2016/17 to 2019/20. Included within the settlement figures for the four year period was negative revenue support grant in 2019/20.
- 5.3 In 2017/18 this Council no longer received any RSG from Government and in 2019/20 it was controversially expected that Epsom and Ewell Borough Council would have to pay £625,000 to Government as part of the Council's funding settlement, this payment was referred to as 'negative RSG'.

# Financial Policy Panel

## 18 June 2019

- 5.4 After significant lobbying (including from this Council), the Government announced in December 2018 that it had removed the payment of negative RSG from the 2019/20 settlement.
- 5.5 Although negative RSG was removed from the settlement for 2019/20 there is now an increased risk to the Council's funding position for 2020/21 onwards. The Government is undertaking a 'Fair Funding' review and it remains possible that the negative RSG amounts originally due from local authorities will be incorporated within the new funding calculation.
- 5.6 As such the outcome of the new funding settlement could result in an equivalent reduction in our baseline income of the negative RSG amount from retained business rates income.
- 5.7 This would impact on the level of business rates income kept by the Council and as a result could see a reduction of £625,000 to the level of income retained from business rates when compared to 2019/20.

## **6 Budgeted Forecast for 2020/21 onwards**

- 6.1 The latest forecast reported to Council in February 2019 showed the Council is facing a funding deficit by the end of 2023/24 of between £1.5 and £2m. This position assumes the following;
  - 6.1.1 Income from council tax and fees & charges are to increase annually by 3%.
  - 6.1.2 Inflation remains at 2% per annum.
  - 6.1.3 The annual pay award is agreed at 2%.
  - 6.1.4 Government funding to reduce by nearly £¾ million over the four year period, to reflect the potential re-introduction of negative RSG through a new funding calculation for retained business rates.
  - 6.1.5 £400k of revenue funding made available by 2023/24 to finance a sustainable capital programme.
  - 6.1.6 £300k increase in back funding by 2023/24 to address potential pension fund deficit.
  - 6.1.7 Nearly an additional £352k of other growth pressures during the next 4 years.

# Financial Policy Panel

## 18 June 2019

	Base £'000	Annual Increase	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Inflation	9,500	2%	190	190	190	194
Pay award	11,000	2%	400	408	416	424
<b>Total Provision for Annual Uplifts</b>			<b>590</b>	<b>598</b>	<b>606</b>	<b>618</b>
Projected reduction in Government funding			340	131	134	136
Funding for capital schemes			100	100	100	100
Pension fund back funding			100	100	100	
Other Service Pressures			202	50	50	50
<b>Total annual increase in Net Expenditure</b>			<b>1,332</b>	<b>979</b>	<b>990</b>	<b>904</b>
<u>Increases in revenue funding</u>						
Increase in council tax		3%	245	254	263	274
Fees & charges	7,000	3%	290	210	210	216
Interest on investments			34	45	65	30
<b>Total annual Increase in Revenue Funding</b>			<b>569</b>	<b>509</b>	<b>538</b>	<b>520</b>
<b>Annual Savings Target</b>			<b>763</b>	<b>470</b>	<b>452</b>	<b>384</b>
<b>Cumulative Savings Target</b>			<b>763</b>	<b>1,233</b>	<b>1,685</b>	<b>2,069</b>

6.1.8 The current position shows that from 2021/22, additional income raised from increasing council tax and fees & charges (c£460k) is insufficient to fund pay increases and inflation at 2% (c£600k).

6.1.9 The structural deficit is further increased by funding requirements for a sustainable capital programme, pension fund liabilities and an increase in other cost pressures.

6.2 The detailed forecast will be fully updated in the Budget Targets report (September 2019).

# Financial Policy Panel

## 18 June 2019

### **7 Service and Financial Planning**

- 7.1 Officers have drafted a work programme to assist in addressing the funding shortfall for 2020/21 and the subsequent three years.
- 7.2 The key features of the programme comprise:-
  - 7.2.1 A base review, this entails reviewing the year end position for 2018/19, 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.
  - 7.2.2 A 'Star Chamber' exercise where Service Heads will present options for their services on how savings to the Council can be generated over the next four years.
  - 7.2.3 Service Reviews to be undertaken over the next four years with the aim of increasing efficiency, effectiveness and cost.
  - 7.2.4 Property Related Review – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.
  - 7.2.5 Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.

### **8 2020/21 Service Review**

- 8.1 To address the projected £2m budget gap, the Four Year Financial Plan assumes an annual savings target of £500,000 including £250,000 of efficiency savings and £250,000 savings from service review.
- 8.2 Based on information currently available, the minimum savings requirement for 2020/21 to enable a balanced budget will be £763,000.
- 8.3 It is proposed that officers undertake the work outlined in 7.2 above and present members with a list of proposals which could help deliver balanced budgets from 2020/21 onwards.

### **9 2020/21 Budget Timetable**

- 9.1 The proposed revenue and capital programme reporting timetables are contained in the Annex to the report.
- 9.2 The timetable reflects the normal budget review process and will need amending if a more comprehensive corporate service review is required.
- 9.3 Prior to the Budget Targets being set by Strategy and Resources Committee in September the Chief Finance Officer will update the ten year financial forecast based on the current level of service provision.

# Financial Policy Panel

## 18 June 2019

- 9.4 The following review of resources will be carried out by September to assist financial planning for 2020/21:-
- A revised forecast of government funding incorporating latest information available from the Fair Funding Review;
  - A revised forecast on business rate income under the business rate retention scheme;
  - A forecast of council tax income;
  - The Council's financial standing following close of accounts including a review of reserves and provisions
  - A summary of income from fees and charges across all council services

### 10 Financial and Manpower Implications

- 10.1 The provisional financial outlook for 2020/21 and future years is covered in this report.
- 10.2 In preparing the Council's new Medium Term Financial Strategy the Council will also need to approve a new 4 year Pay Policy and Asset Management Plan, enabling details from the new approved policies to be incorporated into the Financial Strategy.
- 10.3 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.
- 10.4 **Chief Finance Officer's comments:** The Medium Term Financial Strategy 2020-24 must ensure that the Council's financial health is maintained whilst delivering the priorities in the Corporate Plan.

### 11 Legal Implications (including implications for matters relating to equality)

- 11.1 None arising from the contents of this report
- 11.2 **Monitoring Officer's comments:** None arising from the contents of this report.

### 12 Risk Assessment

- 12.1 The main financial risk is the potential for the Council's revenue to fall well below the cost of providing services as government grant is reduced. This would require excessive use of the working balance and other reserves and could make the long term delivery of existing services non-sustainable.

# Financial Policy Panel

## 18 June 2019

12.2 The service and financial planning process must address these risks.

### **13 Conclusion and Recommendations**

- 13.1 After year-on-year savings for several years the Council has become more adept at managing services on reduced funding. However, this is becoming increasingly difficult with further cuts in public sector spending expected to continue over the next government spending review period.
- 13.2 There are no provisional government funding allocations for 2020/21 currently provided by Central Government. However, further cuts are anticipated following the outcome of the 'Fair Funding' Review but there is uncertainty on the level of these reductions.
- 13.3 The Panel are asked to confirm that officers should work with Chairmen to bring forward service saving options.
- 13.4 Projections for 2020/21 indicate the need to identify a minimum of £763,000 of savings after allowing for additional income from charges and council tax to achieve a balanced budget.
- 13.5 The four year budget forecast will be updated in September 2019 and the Panel will receive a full update on the Council's finances, including revenue and capital reserves and provisions.
- 13.6 A programme of service and financial planning is required to assist the preparation of the Corporate and Finance Plans 2020-2024 and a summary of the proposed financial and service planning programme is attached to this report. It is important for the financial standing of this authority that the Council has a plan to address future year deficits.

**Ward(s) affected:** (All Wards);