COPY OF THE REPORT SUBMITTED TO THE RESOURCES COMMITTEE ON 24TH SEPTEMBER 2015 – Minute 110, page 207 of the 19.11.15 Council Book refers	
FINANCIAL STRATEGY	
Report of:	Alistair Montgomery – Chief Finance Officer - 01883 732902 e-mail: amontgomery@tandridge.gov.uk
Purpose of Report :	To provide information to enable Members to determine a financial strategy for the Authority.
Publication status:	Unrestricted
Recommendations:	That the Committee recommends to Council that: A. the financial strategy comprise of the components listed at paragraph 3.1 (a to m) below; B. a Development Reserve and updated General Fund Budget Reserve be established; and C. there be no change in 2016-17 to the Current Local Council Tax Support scheme.
Appendices	Appendix 'A' - Council Tax and Government grant comparisons (page 11) Appendix 'B' - Components of a Financial Strategy (page 12) Appendix 'C' - The Council's Financial Reserves (page 17)
Background papers defined by the Local Government (Access to Information) Act 1985	None

1. Background

1.1 At the last meeting of this Committee, consideration was given to the outcome of the LGA Finance Peer review. One of their prime recommendations was that the current Medium Term Financial Plan should be developed into a Medium Term Financial Strategy.

1.2 Also, over the last few years, it has become increasingly evident that the Council needs to develop in innovative ways in order to be able to continue to provide services to the required standard, during periods of declining resources. The existing approach of annual budget reviews by Policy Committees seeking to generate savings by way of efficiencies and cost reduction will increasingly lead to more invasive demands for variations in service provision.

1.3 While it is true to say that the Council has made some real savings in response to the reductions in external funding by reducing staff numbers, becoming more productive and driving down the costs of external contracts, it is also the case that some of the reductions have been compensated for by taking one off decisions or by the use of reserves. Self-evidently, these options will not be open to us indefinitely. It is therefore vital that the Council develops an approach to its financial planning which is sustainable and recognises the likely continuing decline in Central Government support.

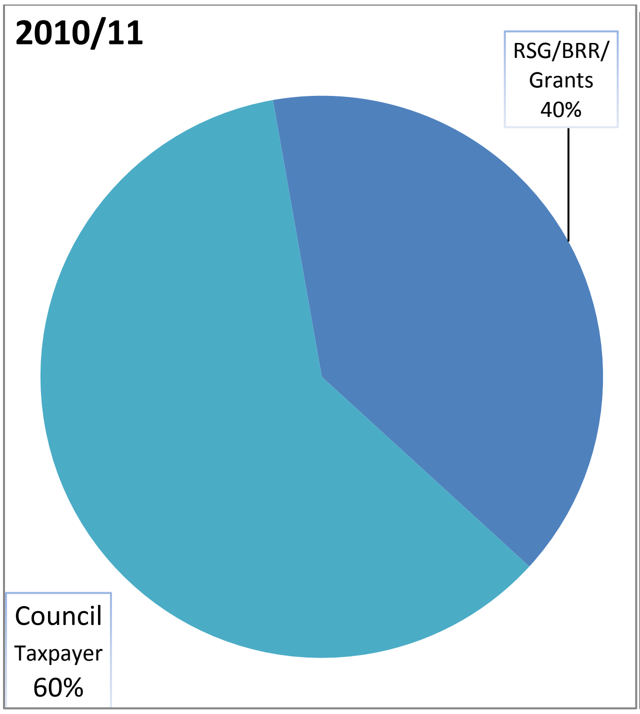
1.4 Local Authorities are, however, in a paradoxical financial situation. On the one hand they have cash strapped revenue budgets with severely declining Government grant, limited freedom to increase Council Tax, and fees and charges increasingly ring-fenced in trading accounts or set directly by Government. Conversely, they typically own significant assets, some have available cash reserves, and most importantly have access to very low interest government loans subject to the prudential rules.

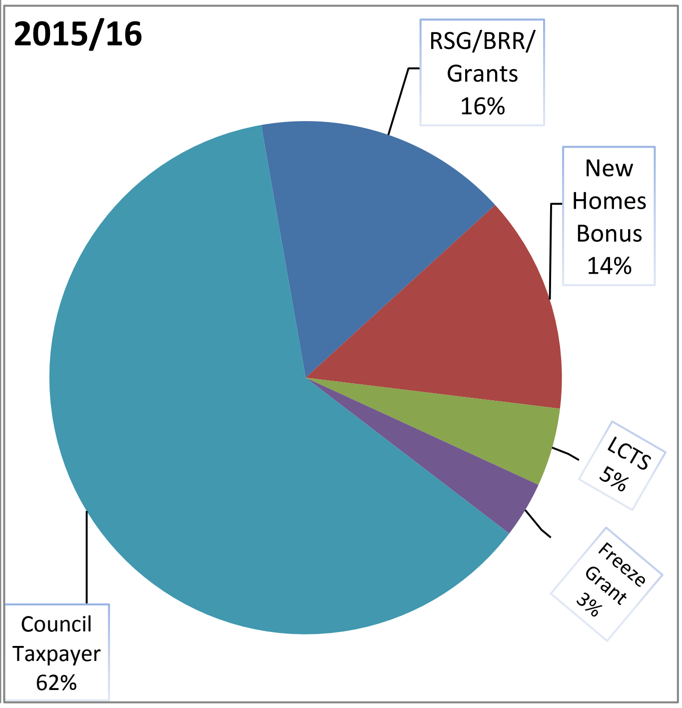
1.5 A number of Authorities have used this position to their own advantage. They have undertaken major developments in order to achieve their corporate objectives such as economic growth, town centre re-development and service enhancement, whilst also achieving a substantial ongoing revenue return which is then used to help balance their revenue budget shortfall.

1.6 A current local example is that of Runnymede Borough Council which is developing a 100 room hotel, 200 new homes, many retail units, restaurants, a cinema, 400 car parking spaces, and public landscaped areas at a cost of some £90m which will generate substantial revenue income, thus contributing to their savings requirement. A similar development is also planned by Woking Borough Council, including flats, hotel, retail space and car parks at an overall cost of £250m. Guildford Borough Council is also developing options, whilst Reigate & Banstead Borough Council is engaging in substantial town re-development which is generating significant revenue income. A further example just coming to light is that of Surrey Health Borough Council where they are planning to purchase an industrial estate at £8m, securing annual income of £½ m.

1.7 This report seeks to present a draft financial strategy for the Council which uses to best effect its assets, reserves and borrowing ability in order to achieve the corporate objectives whilst also achieving General Fund revenue budget savings. This report primarily considers the General Fund; the Housing Revenue Account (HRA) is being reviewed separately by the Housing Committee within its own business plan.

1.8 The financial challenges facing the Council have been particularly severe in the past five years. Income from the Government's Revenue Support Grant (coupled with business rates) has declined substantially from £3.8m to £1.5m which has been partially offset by the receipt of the New Homes Bonus (NHB). In addition, the Government has changed the way it funds Council Tax discounts known as Local Council Tax Support (LCTS) with significantly reduced funding. As the pie charts below demonstrate, in 2010/11 40% of income was from Central Government and 60% from the Council Tax payer. In the current year, only 16% of income will be from Government grants with a further 14% from the receipt of NHB. Income from the Council Tax payer has been frozen as the Council has taken advantage of the Government freeze grant.





1.9 Without NHB and Council Tax Freeze grant, substantial increases in Council Tax would have been required according to the varying levels of expenditure for these two years, i.e.:

- a 27% Council Tax increase based on budgeted 2015/16 expenditure; and
- a 51% Council Tax increase based on actual 2010/11 expenditure, adjusted for inflation.

(such Council Tax increases would have required acceptance by residents via statutory referenda).

1.10 The Council has balanced its budgets over the last five years by:

- cutting its capital and revenue costs including:
  - 10% reduction in staffing levels
  - changes to the Waste & Recycling contract
  - reduction in Tandridge Leisure grant funding
  - increasing third party income, including letting of Council Offices;

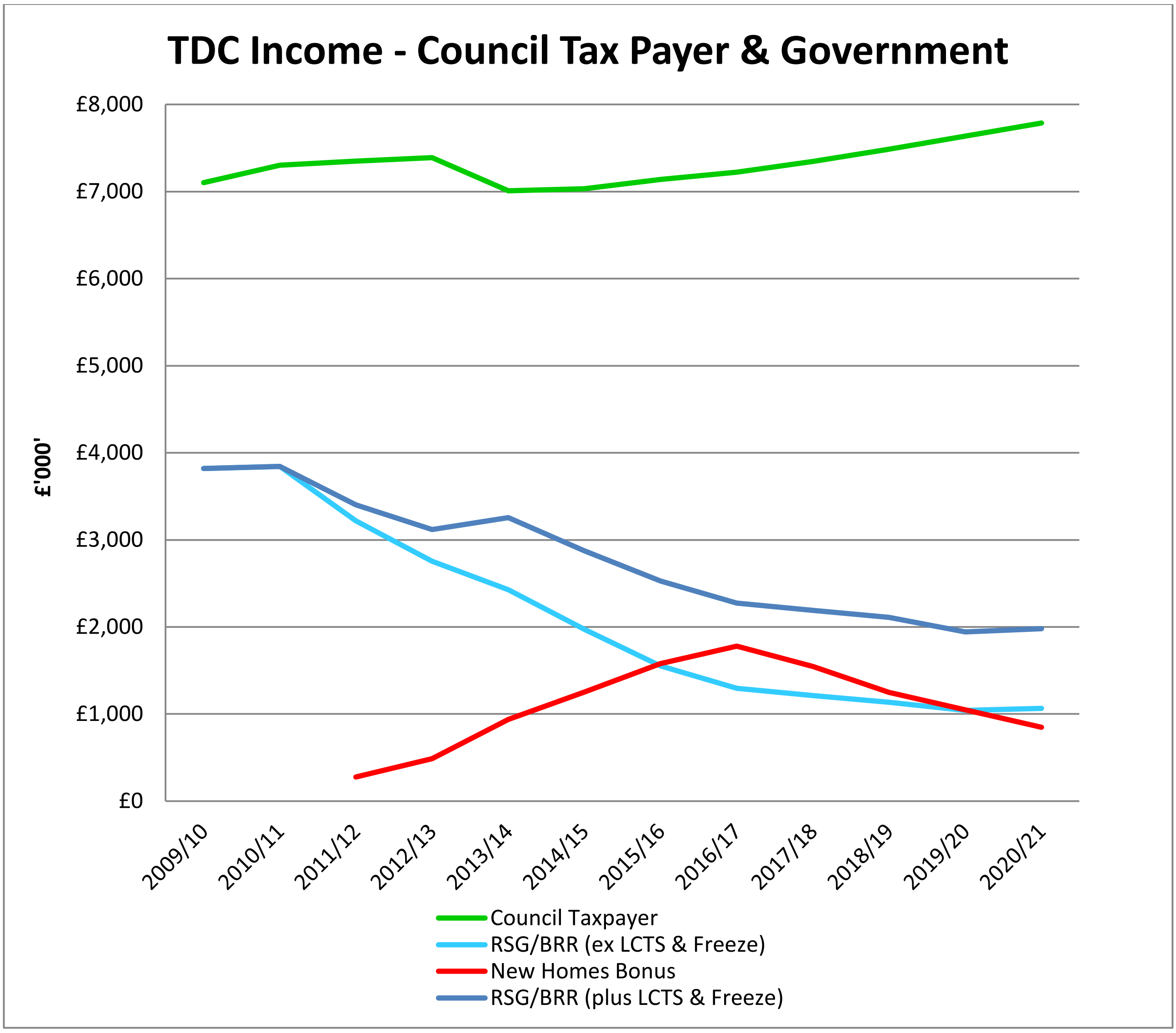
- changes in accounting policies, in particular the repayment of an HRA loan, which have enabled one off contributions to be made to the General Fund;

- using the NHB to support revenue expenditure;

- making prudent use of reserves to smooth the pace of decline;

…. while absorbing £0.9m of lower investment income and inflation of 10% (CPI). It has achieved this while maintaining, and even enhancing, its service levels.

1.11 The Government has now announced that it will draw up plans for further departmental cuts of between 25% and 40% over the next five years. It is therefore expected that the decline in Government grant experienced in the last five years will continue at a similar level. Therefore, without the “one-off” type accounting changes and significant use of our reserves, it is likely that balancing the budgets will be even more challenging. It is anticipated that Government grant will fall to around £1.0m and NHB will peak in 2016/17 before declining. A possible scenario is illustrated in the following graph:



TDC Income - Council Tax Payer & Government
£8,000
£7,000
£6,000
£5,000
£4,000
£3,000
£2,000
£1,000
£0
£'000'
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
Council Taxpayer
RSG/BRR (ex LCTS & Freeze)
New Homes Bonus
RSG/BRR (plus LCTS & Freeze)

1.12 As can be seen from the above graph, income levels have fallen consistently over the past five years and this trend is expected to continue. The one area of growth, New Homes Bonus, whilst providing a welcome buffer to the reduction in Revenue Support Grant over recent years may also decline in the future. The graph is at constant values i.e. it excludes the impact of inflation. If inflation were taken into account the impact would be even more striking.

1.13 *** By way of comparison and ranking, shown at Appendix 'A' (page 11) are details of Council Tax levels and Government grant (RSG) levels across Surrey Authorities. At a national level, this Council receives the sixth lowest level of RSG out of 201 Local Authorities as a percentage of its budget (i.e. 12%, compared to an average of 20%).

1.14 In overall terms, the Council has benefited to a significant extent financially over the last five from just two areas, firstly the NHB receiving some £4.5m and, secondly, from the accounting change relating to the repayment of the HRA loan amounting to £2.9m. These may not be repeated in the future and, therefore, alternative sources of income generation will be required to avoid the need to pursue substantial increases in Council Tax levels as illustrated in the graph above and as referred to in paragraph 1.8. Currently, Authorities can only increase Council Tax by relatively modest amounts without the requirement for binding statutory referenda.

2 Objectives and vision of the Council

2.1 The Council's agreed Key Corporate Priorities are delivered by Committee Service Plans which include issues such as promoting appropriate economic growth (including the Rose & Young and Oxted Gas Holder sites); increasing the recycling rate; meeting housing demand; reducing homelessness; promoting health and wellbeing; and developing a new Local Plan. All of these will require innovative approaches if they are to fully succeed. The financial strategy needs to provide the foundation upon which these priorities can be delivered.

2.2 The formulation of any financial strategy, particularly in times of financial constraint, can usefully begin by reviewing just where the Authority would wish to be (without the financial restraints) in say five years' time. The strategy will then seek to deliver the objectives, notwithstanding the financial restrictions. The following is put forward as a very broad set of statements to describe the position the Council would like be in by 2020:

a) Oxted Gas holder demolished and replaced with a suitable town centre development;

b) Caterham Rose & Young site demolished and replaced with a hotel and associated development;

c) Caterham Master Plan put into effect resulting in a rejuvenated town;

d) Parking issues addressed throughout the District;

e) Warren Lane Depot site comprehensively reassessed and proposals put into action which could include re-development comprising of Council owned housing, together with business and trading units;

f) Lease arrangements involving Tandridge Trust and de Stafford reviewed and leisure service placed on firm footing for future;

g) Annual completion of 10 units of new Council owned housing accommodation;

h) Council Tax increases for the five years at inflation or less if Government grant were available

i) Balanced budget produced annually

j) Reserves maintained at reasonable levels

k) Balance sheet remains strong with increasing net value of assets (i.e. increased asset value exceeds debt level).

2.3 The above is of, course, just a potential snapshot of the overall position: there will be many individual developments over the next five years but this could be regarded as a broad overall projection.

2.4 The financial strategy needs to be designed in order to achieve this position.

3 Financial Strategy

3.1 The proposed components of a financial strategy are listed below:

a) To create a development reserve amounting to an estimated £1.0m together with a General Fund Revenue Reserve at an estimated £1.9m.

b) To seek to achieve £2m each year from asset sales. This income can then either be used to fund the required investment/developments to achieve the corporate priorities and/or to invest the cash in order to achieve revenue income. The target revenue impact being £100,000 p.a. additional income.

c) To compile business cases for suitable land holdings and assets of the Council to determine if the interests of the Council are best served by a) retaining b) selling or c) redevelopment. In cases of redevelopment, the option of a Council funded scheme be compared with other models.

d) To continue to pursue partnership options, particularly in light of the submission to Government of the 3SC devolution proposals and the work already started in East Surrey. In the first instance, this is likely to involve an approach to the County by the four Districts / Boroughs to take on some of the "street scene" functions relating to our areas, for instance grass cutting and highways maintenance. This would be on the basis that there is sufficient and secure funding and that such local delivery of services would be more cost effective.

e) To review opportunities to purchase assets which would contribute to the corporate objectives, whilst also producing a net revenue return for the General Fund.

f) To encourage business development with a target of achieving additional business rates revenue income of £100,000 p.a.

g) To continue investment diversification in order to secure additional revenue income of at least £100,000 p.a.

h) To restrict annual Council Tax increases to the level of inflation or less if Government grants are available.

i) To set fees and charges to achieve a maximum level of income having regard to any projected adverse impact on vulnerable residents, consumer demand and resulting diminishing returns.

j) To continue to negotiate annual salary increases with local staff representatives.

k) To secure annual revenue savings (to be identified by all Policy Committees) to cover any financial shortfall not achieved by the above methods.

m) To continue to review services to ensure that they are efficient and provide value for money.

3.2 The above, particularly where target revenue impact figures are given, should be regarded as the minimum to be achieved. Savings are required practically immediately, whilst the above is a five year financial strategy which will inevitably take time to introduce and develop.

3.3 Further details on all the above options, which in essence advocate a more commercial
*** approach, are set out at Appendix 'B'(page 12).

4 <u>National review</u>

4.1 A national study carried out by the Institute of Local Government Studies (INLOGOV) reviewing the future challenges facing Local Government over the medium term concluded that there were six possible scenarios for the next five years. These are as follows:

1) **Adaptive innovation** – Councils creatively redefine their role and are able to affect their operating environment, often working in close partnership with other authorities

2) **Running to stand still** – Councils are led and managed well and can see a positive future, provided that they can keep up the current pace and that there are no major shocks

3) **Nostrils above the waterline** – Councils are only able to act with a short term view, their existence is hand to mouth and even a small external change might seriously challenge their viability

4) **Wither on the vine** – Councils have moved from action to reaction. Their finances and capacity are not sufficient to the task and they are retreating into statutory services run at the minimum

5) **Just local administration** – Councils have lost the capacity to deliver services either because they have 'handed back the keys' or because responsibility for significant services has been taken from them

6) **Imposed disruption** – Councils are subject to some form of imposed change, such as local government reorganisation.

4.2 Councils are asked two questions:

a) how well does your Authority identify with the 'Adaptive innovation' scenario; and
b) which scenario best describes your Council?

4.3 Members are asked to reflect upon their own answers to these questions. The Peer Review Team felt that this Council fell into scenario 2 above, bordering on scenario 1. The strategy set out in this report should move us more firmly into category 1.

5 <u>Council Reserves</u>

5.1 Hitherto, the strategy has been to maintain a prudent level of reserves, maintaining some for specific purposes whilst using others in a structured, measured way to support the General Fund revenue budget. There are, however, now a number of reserves which have been created for specific purposes in the past and would benefit from a review, seeking consolidation where this would be beneficial.

5.2 It is suggested that two new reserves be created, one being a Development Reserve. This would be a multi-purpose fund to provide the finance to enable the investment in services in line with the agreed corporate objectives. There could be various delegation limits set in relation to authorisation of usage.

5.3 The second reserve would amalgamate various existing, separate funds, most of which are currently being used to support the General Fund revenue budget (i.e. they provide a buffer in order to phase the impact of revenue budget savings).

5.4 The following table sets out the various reserves which could be consolidated.

Table 1

Reserve	Estimated balance at March 2016 £'000	Total balance transferred to new reserve £'000
New Reserve 1: Development reserve		**1,005**
Compiled from following reserves:		
Capital projects – Invest to Save	213	
Economic development	462	
Efficiency and modernisation (saving from 2013-14 final accounts)	330	
New Reserve 2: General Fund Budget reserve		**1,891**
Compiled from following reserves:		
General Fund Budget reserve (including savings from 2014-15 final accounts)	1,697	
Savings equalisation reserve	100	
Insurance reserve	94	

5.5 There are various other reserves which are either statutory or very specific to particular services which should therefore remain as individual funds and not be consolidated. A list of
*** reserves is shown at Appendix 'C' (page 17).

6 Housing Revenue Account (HRA)

6.1 This paper does not seek to review the HRA. It is, however, useful to acknowledge the significant changes introduced by the Government in its Summer Budget 2015 which will impact upon the HRA's existing business plan. These will be considered in detail by the Housing Committee.

6.2 The key policy changes are as follows:

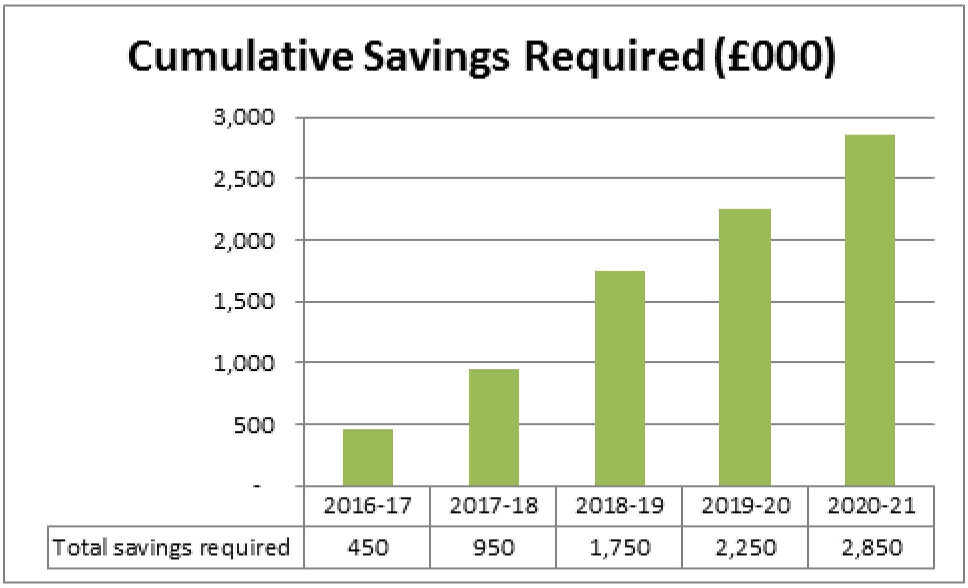
a) A 1% reduction in social rents for four years from 1st April 2016 – this will impact significantly upon the projected rental income for the HRA, where the current assumptions are based on an annual increase at 1% above CPI. The difference over the next five years amounts to £4M; and £70M over the next thirty years. This assumes that rents will revert to CPI plus 1% after four years which, in itself, may be an optimistic scenario.

b) "Pay to stay" proposals – Local Authorities will be required to charge market or near market rents to tenants where household income is in excess of £30,000 (for authorities outside London) and pass the additional rent receipts generated to the Government. There is a lack of information on how this will be implemented but it could present a significant administrative burden.

c) Disposal of "high value" properties as they become vacant - again details are awaited. It could result in the HRA losing the rental streams from any high value properties that are sold, along with the marginal costs of managing and maintaining those units. It is possible that this policy will impact upon properties provided under the Council's new build Council house programme, as these are likely to be in the 'high value' range.

7 Financial / risk Implications

7.1 A detailed financial revision of the five year Medium Term Financial Plan will be undertaken and reported to the next meeting of this Committee. At the current , the indications are that Policy Committees will need to identify annual budget savings, after the use of revenue reserves, of around £½ million each year. These savings are cumulative i.e. each year an additional ongoing £½ million of savings will need to be identified, this being in addition to the ongoing £½ million achieved in the preceding year. This is illustrated in the following graph:



7.2 Clearly, if all of the savings are to be found by Policy Committees at their annual budget review this will represent a considerable task which may, in time, become unsurmountable and lead to significant service level reductions. The strategic options presented are designed both to assist in the achievement of the corporate priorities whilst also generating revenue savings. The more revenue income that can be generated by the strategic options, the less Policy Committees annually need to identify and the lower impact on services and the residents who use them.

7.3 The Authority has continued to implement the Government's default scheme for Local Council Tax support (LCTS). It is required by legislation to annually review the scheme. The Government, however, has previously stated that it would review the implementation of LCTS after three years. This would therefore be at the end of the current financial year, although the precise timetable is not yet known. Any change from the Council's current approach would have to be carefully considered in view of the implications of possible increases in the level of debts and collection costs.

7.4 The potential saving to this Council from imposing a 15% increased contribution from all Council Tax payers has previously been estimated at some £24k with some £152k falling to the County Council. The saving to this Council could, however, be offset should additional staff resources be necessary to aid collection. All costs of collection fall to this Council as the billing authority and whilst the County Council contributed financially towards the costs of the scheme in the first year, it withdrew all support from year two.

7.5 It is proposed that the default policy continues to operate for 2016-17.

8. <u>Legal Implications</u>

8.1 Section 151 of the Local Government Act 1972 requires all Councils in England and Wales to make arrangements for the proper administration of their financial affairs. This report satisfies the requirements of this legislation in terms of reporting on the Council's budgets.

9. <u>Equality Impacts</u>

9.1 It is not considered that the proposals within this report have the potential to disadvantage or discriminate against different groups in the community

10. <u>Conclusion</u>

10.1 As the peer review team concluded, the Council has managed its resources well in increasingly challenging times, husbanding its resources carefully and providing excellent stewardship of public resources. This has left the Council in a relatively stable financial position when compared to some other Authorities and we should be rightly proud of our record. However, regardless of the national economic climate, it is clear that reductions in public sector spending will be a key feature of the next comprehensive spending review. The Council cannot therefore afford to be complacent.

10.2 As well as these financial challenges, the focus of Local Government has, in recent years, begun to widen so that its role is beginning to be more than simply a provider of services, valuable though these are. The Council has a broader role as a leader of place, working with residents, businesses and public sector partners to ensure that the District and the settlements within in are viable and vibrant and that the quality of life of our residents in enhanced. To this end, the Council has taken a number of decisions in the last two years or so which will, to an extent, change the way in which it operates and, by implication, its approach to financial management. Three examples are the decision to build Council homes, the adoption of a new asset management strategy and the commissioning of a Master Plan for Caterham.

10.3 We have also continued to seek opportunities to work in partnership with neighbouring Authorities. This has reaped rewards, for instance, the strength of the East Surrey section of the Coast to Capital strategic economic plan led to the Council being awarded £400k to fund regeneration work in Oxted and Caterham. The more recent submission to Government of the 3SC devolution bid has provided the backdrop for discussions between the four East Surrey Authorities about how we they can work more closely together, thus improving service quality and resilience whilst being more cost effective. This work has opened the door to more wide ranging discussions with County about the devolution of some of their place based functions to District level (the premise being that such services can be delivered more closely and effectively to the people who are using them).

10.4 The strategy outlined above should place the Council in a strong position to deliver on current objectives and to further develop its vision of Tandridge as a place where people want to live work and visit.

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