Approach to Financial Sustainability: Savings, income generation and efficiencies.
(Amanda Fahey, Assistant Chief Executive)

Synopsis of report:

This report provides an update to the actions set out in the Medium-Term Financial Strategy approved by Full Council in February 2023. In particular, it sets out a process for the identification and delivery of savings, income generation opportunities and efficiencies designed to underpin the Council's financial sustainability. The aim of these measures over the medium term is to reduce reliance on working balances to meet budget shortfalls and build capacity within the general revenue fund to support capital spending, enabling the Council to meet its strategic objectives.

Recommendations:

(i) To note progress against the actions set out in the Medium-Term Financial Strategy

(ii) To recommend to Full Council the approach set out in the report to the identification and delivery of savings, income generation and efficiencies

(iii) Approve in principle the transfers to reserves as set out in the report and the creation of the Planned Underspend Reserve and the Service Transformation Reserve (subject to the final outturn position for 2022/23)

1. **Context and background of report**

1.1 The production of a Medium-Term Financial Strategy (MTFS) is an integral part of the financial planning cycle of the Council, building the framework in which financial decision-making is taken and setting out the context for detailed budget preparation.

1.2 The fundamental aim of the Strategy, as approved by Full Council in February 2023, is to provide a framework for the effective and efficient use of Council resources whilst taking appropriate action to mitigate financial risk and Appendix 4 of the MTFS set out 18 actions in support of this aim.

1.3 While the MTFS will be updated later in the year as part of the normal budget planning cycle, it is appropriate at this stage to review progress against these actions and, most notably, to set out for consideration a process to achieve net savings (from both reductions in expenditure and increased income) and efficiencies in service delivery, to ensure Council resources are used effectively in the pursuit of the Council's strategic objectives.

1.4 The Medium-Term Financial Forecast (MTFF), as updated and reported alongside the budget report for 2023/24, showed a potential budget shortfall by the close of 2025/26 of £5.2m. Various scenarios were set out in the report, indicating how this figure could change depending on a range of potential outcomes. For example, income projections and government funding estimates may have been either too cautious or overly optimistic, or insufficient inflationary effects may have been built into the forecast. In addition, the estimates in the forecast did not include any growth, either in-year from 2023/24 onwards via supplementary estimates or as part of any further budgetary growth during budget production for 2024/25 and beyond (over and above the known, contractual or inflationary growth already assumed in the forecast).

1.5 On the assumption that some estimates will be better, and some worse, than anticipated, £5.2m is not an unreasonable proxy for a target level of net savings to be found to address the on-going drain on the General Fund Balance. The Council currently has sufficient balances to maintain a balanced budget over the medium term but cannot continue to rely on these reserves into the future without taking some corrective action. The updated forecast anticipated that reserves would fall by more than £10m between 2022/23 and 2025/26, reducing from £18.2m to £7.8m. This would mean that balances at the end of 2025/26 would sit at £2.8m above the minimum target level of £5m but could potentially fall below that minimum level in the following year if a similar budget gap were to be recorded in 2026/27. The level of balances will of course vary each year in line with the final outturn position and whether there is any under- or over-spend against the original budget.

1.6 A further concern is the lack of future funding for the Capital Programme. The Council currently has a high level of borrowing compared to other District and Borough councils, due in part to its previous acquisitions of commercial property which provides a sizeable income stream to the Council, but also due to regeneration schemes within the Borough, such as in Addlestone and Egham, which have delivered a significant number of residential units, as well as commercial offerings for both towns including two cinemas and a variety of restaurants and leisure outlets.

1.7 Should the enactment of the Levelling Up and Regeneration Bill, or any tightening of the Prudential Framework or Government's investment guidance, restrict the Council's ability to borrow, other sources of capital funding will need to be found due to the limited availability of capital receipts. Some funding may be secured via grants, s106 or Community Infrastructure Levy and these should be maximised wherever possible. However, it may also be necessary to create headroom in the revenue budget to make additional contributions to capital spending to create funding for more of the Council's short life assets which are required to be regularly replaced (vehicles, plant, CCTV equipment for example). This is referenced in the Capital & Investment Strategy 2023/24 – 2026/27.

1.8 Even if additional borrowing is not restricted, or is permissible under limited circumstances, the existing financial forecast does not include any provision for the repayment of new borrowing (Minimum Revenue Provision or MRP), nor does it include any additional interest costs, thereby bringing the affordability of future borrowing into question.

1.9 Other measures the Council may consider are revisions to its MRP strategy, which is currently based on an annuity method, meaning that costs are loaded to later years, creating a future burden on taxpayers, should the income from investment properties not keep pace with the rising MRP provisions. The Council could also choose to make additional provision for the repayment of existing debt through voluntary revenue provisions (VRP) and look to switch debt between the Housing Revenue Account and the General Fund. It may also look to improve analysis of its future repairs and maintenance liabilities and anticipated void costs/rent free periods of its property portfolio, so as to ensure sufficient sums are set aside in its reserves to support its rental income stream. All of these measures will put additional pressures on the general fund and widen any budget gap. It is important to note therefore that any financial benefits to be received from the proposed savings and efficiencies programme will need to not only meet the forecast budget gap but to also allow for some, or all, of the above actions.

2 Progress against actions in the Medium-Term Financial Strategy

2.1 Appendix 1 sets out the progress against individual actions that were approved as part of the MTFS. Many of these actions are on-going as they form part of a framework of good financial governance and will be subject to review and refresh through future iterations of the Strategy. Members are asked to note the progress to date.

2.2 Further progress on items 1, 2 and 8 however, are subject to Member approvals contained in recommendations (ii) and (iii) of this report. More detail on these is contained in the following sections.

3 Items 1 and 2 - Savings and efficiencies process and Service Reviews.

3.1 Due to the overlap of these two actions, they have been commenced in tandem and incorporated into the annual business planning cycle and budget process. These two processes have been aligned to reduce any duplication of effort and to ensure information is supplied at the appropriate time, to feed into both the Service Area Plans and the draft budget for future consideration by Members.

3.2 A service review process already exists, so it is proposed to review and refine the process where necessary rather than reinvent a new process. The review process will use principles of service design and project management methodology to support it. The process can be split into different phases as part of a continuous improvement cycle:

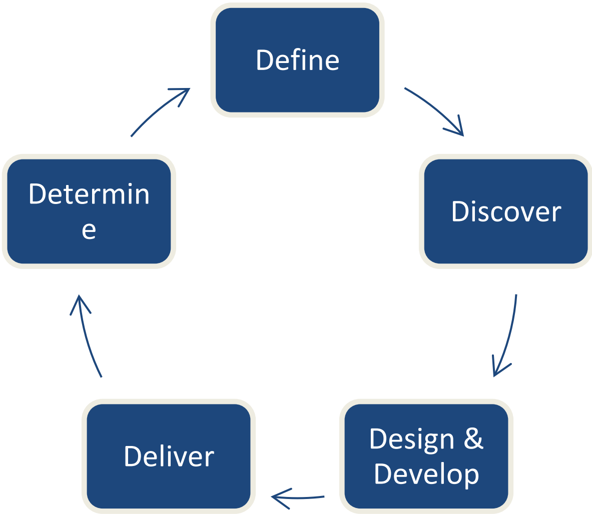
Define – what is the scope of the review, what areas will be specifically looked at, who needs to be involved, what will happen when etc.

Discover – what happens now, what processes are in place, what are strengths and weaknesses, how do other Local Authorities operate, what feedback is available from staff, current staffing levels, resource peaks/troughs/pinch points

Design or Develop – what can be improved and how, develop prototypes, ask our clients/customers/staff for input to co-design, develop new improved processes, innovate and push the boundaries

Deliver – bringing findings together, proposing recommendations, setting next steps, develop business cases, plan implementation, move to project management phase, PMO monitors and reports on projects, service areas deliver projects

Determine – lessons learned, evaluate impact, measure success, review and revise methodology



The process commences with a Service Discovery Kick Off meeting with the Service Area Corporate Head, Assistant Chief Executive and PMO to set the expectations for the Service Discovery sessions.

3.3 Service Reviews will form one strand of the overarching process, providing a programme of reviews to be undertaken over the medium term.

3.4 This will run alongside a programme of savings, efficiencies and income generation, including business development ideas i.e., the development of new or maximisation of existing income streams, e.g. trade waste, commercial property portfolio, CCTV, Step-Down services.

3.5 To kickstart this programme, the Assistant Chief Executive (s151), supported by the Head of Business Planning, Projects and Performance and members of the Project Management Office, has undertaken "spark" sessions with all Corporate Heads of Service and a small selection of other staff from across the Council, to seek out ideas encompassing the following:

- Ideas for savings, efficiencies and income generation/business development
- Areas for potential service reviews
- Risk, and horizon scanning
- Essential growth

3.6 The first two of these will generate initial ideas to include in the savings and efficiencies programme or the programme of service reviews, while the third will inform Service Risk Registers and spark debate on future issues that could contain opportunities or threats. For example, the proposed Extended Producer Responsibility for Packaging Scheme could provide the Council with the opportunity for a significant new income stream, as yet not included in any financial forecasts. It could equally, however, especially when coupled with other waste reforms, bring with it significant additional service costs. It is essential for longer-term financial planning that future risks and opportunities are considered.

3.7 The extent of any essential growth in the upcoming budget was also explored at these sessions. As mentioned earlier in the report, no growth was included in the last financial forecast. However, so far in 2023/24, £174,000 of supplementary estimates have been approved in the General Fund, with the effect rising to £274,000 in 2024/25, and £283,000 in 2025/26.the majority of which are due to unavoidable increases following tender processes, for example. The detail of the supplementary revenue estimates approved in the first quarter of 2023/24 are set out in Appendix 2 of this report. As can be seen in the table, this increases the anticipated budget gap to £5.5m by the close of 2025/26 and has a cumulative effect of reducing working balances by £731,000 over the period.

3.8 It is inevitable that some growth will occur, not least due to the approach taken in 2023/24 to move towards a more planned rather than reactive approach to maintenance of the Council's assets, which saw a number of growth items in relation to condition surveys being approved (e.g., for play equipment, operational buildings and trees). At the time, it was noted that once these condition surveys were complete, a planned programme of works would need to be devised which could lead to further growth if urgent works could not be contained within existing budgets.

3.9 Moreover, an indication of the level of any potential growth bids would be necessary to understand the quantum of budget adjustments to be found as each additional £1 of spend would require an additional £1 of savings or income generation to balance its effect. Initial revenue growth items have been suggested in the region of £500,000 and up to £3,5m of capital growth, the latter being important as without funding (from grants, capital reserves or capital receipts), the capital growth will either require borrowing, with the consequential pressure of interest payments and repayment provisions on the revenue account or will need to be met directly from revenue sources.(Thus widening the revenue gap even further).

3.10 The growth items are indicative only at this stage and include some aspirational items rather than only essential or unavoidable items. Growth items will need to be progressed through the budget process with the appropriate business cases being produced for consideration in the Autumn.

3.11 The ideas for Service Reviews are being collated and assessed for priority within the Review programme, taking account of factors such as risk, responding to new legislative requirements and potential benefits, both financial and non-financial (i.e., more efficient service delivery, customer satisfaction etc). It is intended to group proposals for both service review and the savings programme under various themes such as financial savings, efficiencies, asset evaluation, organisation development and income generation, to aid reporting and monitoring.

3.12 The rolling programme and the outcomes of Reviews will be reported to the Communication and Service Transformation Working Party[1], with any recommendations onwards through the Committee process.

3.13 Savings, income generation and efficiency ideas have been collated in a spreadsheet and initially ranked by the Corporate Leadership Team to indicate if more work is required and whether a full business case needs to be produced for members' consideration. Some items have already been delivered through decisions made at Committees and these are being captured to include in the totals to bring through to the next financial forecast. Others are the result of a review of service requirements which have resulted in the release of small budgets such as postage requirements, which need no further approval other than to incorporate into the budget estimates later in the year.

3.14 More complex proposals, or those involving pump priming where an initial investment is required to enable the saving to be realised, will be subject to business cases as

[1] Formal set up of Member Working Parties for 2023/24 is yet to be considered by Full Council

described earlier in the report. Initially the proposals have been RAG-rated to provide an indicative assessment of their potential, although some will require further work to be undertaken before any estimate of savings can be attached. The total savings indicated to date of £1.7m are therefore not a true picture of what may be delivered, as some items do not yet have figures attached. It may also be that Members may choose not to pursue all of the proposals. Again, more detail on the proposals will come forward for consideration once these business cases are developed. This process will, by necessity, be an iterative one as forecasts are updated and the scale of potential savings is more accurately quantified.

3.15 It should be noted that while the more immediate focus is on delivery of savings, efficiencies and income generation within the General Fund, the Council's Housing Revenue Account (HRA) will also be subject to the same programme. While the HRA currently has strong balances, the review of the HRA business plan presented to the Housing Committee in March 2023, showed balances falling from over £34m in 2023 to just £2.7m in 2026/27, due largely to the profiling of capital expenditure. Balances then fluctuate between £2m and £5m for a number of years before growing again to around £14.5m in 2040/41 and moving to a peak of around £37.6m in 2051/52. Clearly long-term forecasts are by their nature indicative and reliant on many assumptions, however given the size of the Council's HRA budgets and the importance of ensuring sound financial management for all of its services, it is appropriate to ensure the level of challenge and review being applied to the general fund, is also applied within the HRA.

3.16 A final strand to the programme is to develop a simple system for all staff to be able to submit savings ideas. This is proposed for the following reasons:

- Culture change – embedding the need for continuous improvement & budget control throughout the Council, ensuring everyone has a voice and feels part of the savings process, rather than having it "done to them" or it being someone else's problem

- Providing an opportunity for those closest to the day-to-day delivery of services to input ideas

- If a raft of small, easy wins can be generated it will boost morale, demonstrate that savings can be achieved and encourage other contributions

It will be important to have a way of acknowledging ideas received, and providing some feedback, whether the idea is taken forward or not, otherwise staff will disengage. The PMO is working to develop this within existing resources.

4 Governance of the Programme

4.1 Initial steps for action points 1 and 2 as set out in the report have been undertaken by the Assistant Chief Executive (s151 officer) supported by the Head of Business Planning, Projects and Performance and members of the Project Management Office. The outline process has been considered by the Corporate Leadership Team and Service Committee Chairs, before being recommended to Corporate Management Committee. The Senior Leadership Team have been engaged with the process to date and participated in the "spark" sessions to kick start an initial set of ideas and to cascade the importance of this work.

4.2 The next step is for Corporate Management Committee to consider the process and refer to Full Council for approval.

4.3 An officer working group will be formed to progress the programme and to set up and advise on the Service Reviews. This will include the Assistant Chief Executive (s151), the Corporate Head of Customer, Digital and Collection Services, the Head of Business Planning, Projects and Performance, and at least one Member of the Project Management Office. This core team will maintain the tracking system for onward reporting to Corporate Management Team and Members and allocate staffing resources to projects and Service Reviews as appropriate.

4.4 It will be largely incumbent on Services themselves to deliver the projects and Reviews with guidance and support where appropriate. Therefore the make-up of Review Teams will vary according to the individual review being undertaken. It is important that staff within those services are fully engaged in the process in order to successfully deliver the anticipated benefits. The core team will not be able to lead all of the reviews so in some cases these will be distributed to the Assistant Chief Executive (Place) or the relevant Corporate Head of Service. Support will also be drawn from Digital, Legal and Financial Services and Human Resources, as required. This will be a significant, but necessary, workload. Should the review of long-term vacancies that is being carried out, ultimately release any vacant posts from the establishment, it may be worth considering using some of that saving to provide additional temporary resources to support the Service Review teams. This will be dependent on the outcome of that exercise and would be brought back to Members for consideration.

4.5 While day-to-day delivery of the programme will sit with the officer Transformation Working Group with oversight from the Corporate Leadership Team, the outcomes of Service Reviews will be presented to the Communications and Service Transformation Member Working Party, who will then make recommendations to Corporate Management Committee or Full Council as appropriate (depending on financial impact, scale of change etc).

4.6 The Corporate Management Committee will also receive updates on the Programme as a whole while the Overview and Scrutiny Select Committee will play an important role in monitoring the delivery of the required savings and outcomes from the reviews. A flowchart showing the various steps in the governance process is set out at Appendix 3.

5 Financial Risk Mitigation – Response to action point 8

5.1 At the time of writing this report, work on closing the accounts for the year 2022/23 is still underway and the Provisional Outturn Report for 2022/23 will not be presented to Committee until its next meeting in September. However, current indications are that an underspend of approximately £4.9m will be reported when compared to the revised budget estimate for 2022/23. An explanation of major variances will be provided in the Outturn Report in September, but it is appropriate in this report to seek approval for the transfer of additional sums to some key earmarked reserves.

5.2 As set out in action point 8 of the MTFS, earmarked reserves are regularly reviewed to ensure that they are adequate to cover the risks they are intended to provide against. The Council holds reserves to manage fluctuations in its commercial income stream due to voids or rent-free periods and to manage works required to maintain these properties in a highly lettable condition. It is proposed to utilise part of the underspend to top up these reserves, given the current financial climate, which may put pressure on rental income streams through the need to provide greater incentives to retain existing tenants or attract new tenants, and due to the effect of the rising cost of inflation on building works. The original budget proposed to set aside £750,000 to the Property Income Reserve and £1,350,000 to the Property Repairs and Renewals Fund. It is proposed to increase these transfers by £500,000 and £505,000 respectively. Thes are one-off increase in the transfers to these reserves. Further work is proposed to analyse the spend from these reserves and the potential future drawdown, to review the adequacy of these key provisions.

5.3 It is also proposed to set up a Planned Underspend Reserve to improve the monitoring of spend against budgets that are requested to be carried forward from one year to the next. These requested carry forwards, or Planned Underspends, (totalling approximately £820,000) will be set out in the Outturn Report in September. Previously any such carry forwards showed as an underspend in the year in which they were first budgeted and them would be added to budgets in the following year, leading to large variations against original budget estimates. Using a reserve to hold the funding for approved carry forwards, simply smooths the effect of these timing differences between years.

5.4 The final action for consideration in relation to reserves, is a proposal to set up a Service Transformation Reserve to hold funds to be ring-fenced to pump-prime invest-to-save initiatives. Some Councils have been able to take advantage of Capital Flexibilities, where capital receipts from the sale of surplus assets may be repurposed to support Service Efficiency plans. The Council however is reliant on its identified capital receipts to support its existing capital spending programme. This means that one-off growth required to support saving initiatives has to come from the General Fund Revenue Account. Rather than drawing such funding down for the Working balance as and when business cases are agreed, it is proposed to set aside the funds in a separate reserve to make it easier to monitor and report on the spend over time, alongside benefits achieved.

5.5 The reserve would support set up costs or short-term resources such as consultancy costs, ICT equipment, vehicle purchase etc. and not any on-going costs. Expenditure over £10k would not be released without approval of the full business case by Members, whereas funds below £10k could be released for small schemes with the approval of the Assistant Chief Executive (s151), aligned with normal virement rules within the Financial Regulations. Use of the Fund would be scrutinised by the Overview and Scrutiny Select Committee alongside delivery of the savings programme.

5.6 It is proposed to ring-fence £1m for this purpose (subject to the final outturn position). This is anticipated to cover initiatives over the medium term and will be regularly reviewed as set out above. Should the programme not require this level of resource then funds would simply be released back to working balances.

5.7 The effect of these proposed transfers would be to reduce the underspend by £2.825m, while still leaving a contribution to the working balance of £2.1m. This improvement to the working balance, some £1.6m over that anticipated in the revised budget for 2022/23, would provide a larger buffer to absorb future fluctuations in income and expenditure, and will support balances to remain above the minimum recommended threshold of £5m over the medium term. It cannot replace the actions set out in the report in respect of addressing the underlying budget gap but will provide additional time for the necessary corrective action to be undertaken.

6 Policy framework implications

6.1 The Medium-Term Financial Strategy, which Is required to be adopted by Full Council, is an important part of the budgetary framework of the Council, highlighting financial risks, and providing a framework to deliver a sustainable financial position to enable the Council to achieve its strategic objectives. This report provides an update on actions taken under the approved Strategy and sets out a process to deliver other agreed actions.

7 Resource implications/Value for Money

7.1 A robust financial strategy is essential for the delivery of the Council's objectives over the medium term, ensuring that decision-making takes due regard of the financial consequences. The previous financial forecast identified an underlying budget gap that needs to be addressed to ensure the Council is financially sustainable over time and can continue to deliver its corporate priorities, as set out in the Corporate Business Plan. This requires a managed programme of service and budget reviews.

7.2 The next iteration of the MTFS will update the budget estimates and future forecast.

7.3 The transfers to Reserves set out in the report will set aside sums to support the mitigation of financial risk, particularly around the Council's commercial property income. The property portfolio delivers significant income to the Council and is managed via the Asset Management Strategy approved by Full Council. The Council has always recognised the inherent risk in managing property and made provision for both the repayment of debt related to acquisitions but also for the upkeep and maintenance of its assets and variations in income due to the changes in occupancy for example. It is appropriate to ensure that these reserves are adequate and reviewed regularly in light of market conditions.

7.4 Ring-fencing a sum to support invest-to-save schemes provides additional transparency around the costs of the proposed savings and efficiencies programme, whilst still being able to increase the level of the General Fund working balance.

8 Legal Implications

8.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.

9 Equality Implications

9.1 Equality Impact Assessments will be undertaken, where appropriate, for any new schemes considered as part of these initiatives to enable comprehensive assessments to be undertaken where necessary.

10 Environmental, Sustainability, Bio-diversity implications

10.1 Any environmental, sustainability or bio-diversity implications will be considered as part of the business cases for each initiative.

11 Conclusions

11.1 There is no mistaking the financial challenge facing the Council in the years ahead. It has acted prudently in the past by setting aside earmarked reserves to support known risks and to provide against future costs while holding a substantial level of unearmarked reserve (working balance) from which to draw, enabling it to take measured action to reduce its underlying budget gap. This will avoid the necessity for short-term, reactive measures, such as traditional “salami-slicing” of budgets which often do not prove sustainable over time.

11.2 The measures set out in the report should enable the Council to rebalance its budget over time, continue to deliver services for its residents and local communities, and support its ambitions as set out in the Corporate Business Plan.

11.3 It is recommended to approve the savings, income generation and efficiencies process (including Service Reviews) as set out in the report in order to progress action points 1 and 2 within the MTFS, for consideration by Full Council.

11.4 It is also recommended to approve in principle (subject to the final outturn position) the transfers to earmarked reserves set out in section 5, to:

i. increase the level of risk mitigation in respect of the Council’s commercial property income

ii. create the new planned underspend reserve to manage fluctuations in budgets while allowing for the carry forward of previously approved expenditure where delivery has not been possible in the year to which the budget originally related, and

iii. create a Service Transformation Reserve to support invest-to-save initiatives and provide transparency as to any associated set up costs

(To recommend)