## Chelmsford City Council Financial Strategy

### Background

Local Government has experienced a real terms reduction in its funding over several years leading to the need to deliver significant levels of efficiencies.

In addition, Council finances have suffered a number of setbacks arising from world, national and local events. On the world stage COVID led to a significant reduction in Council income and some of these sources of income have still not recovered to pre 2020 levels. Furthermore, the decision for the UK to exit from the European Union led to a shortage of labour together with an increase in the cost of raw materials. These problems have been exacerbated by the war in Ukraine which has driven up the prices of products such as steel and hence led to an increase in the cost of capital projects. In the UK inflation levels reached a 40 year high resulting in a cost-of-living crisis. At a local authority level this manifested itself through significant price rises in energy, higher demands for pay increases together with greater demand for services such as housing. As interest rates rose the cost of borrowing increased which in turn meant that capital projects have become more expensive to finance.

Against this backdrop there have been only moderate cash increases in Government grant and there remains limited scope to increase Council Tax hence the gulf between income and expenditure has increased.

The City Council is therefore largely dependant on maximising its earned income or reducing its cost base in order to balance its budget.

To address this problem in Chelmsford we have developed a financial strategy covering the three financial years. The strategy sets out the key parameters and decisions that have to be taken in order to reduce the budget deficit. The strategy then sets out some options where decisions can be taken to reduce the deficit still further. Ultimately once decisions on these items have been taken any further shortfall will have to be met through cuts to services leading to a reduction in the level of services that we are able to provide to our residents. Such is the level of staffing within many services a reduction in service is not an option, and any further reduction will result in the stopping of the service altogether.

The problems faced by the City Council are common to varying degrees for all local authorities and many have announced that they will not be able to deliver a balanced budget without Government intervention. It is hoped that the new Government will provide additional funding for local government to ensure that essential services can continue to be delivered however this strategy assumes that further funding will not be forthcoming and that the Council will have to close the budget gap itself.

**Steps to deliver a balanced budget**

**Earned Income**

The strategy assumes that full advantage is taken to maximise the Council's income

1. Fees and charges – These account for 36% of our total income net of Housing Benefits and play a crucial role in offsetting increases in expenditure arising from inflation or changes in volume. The strategy assumes that fees and charges will be increased to a level where the yield will not be adversely impacted. In many services the costs incurred to run the service are partially offset by the income generated however most still require a subsidy from the Council therefore where possible increasing these charges reduces the subsidy required.

   There are some services that the Council doesn't currently levy a charge and therefore the full cost falls on the Council. In such instances the Council should consider levying the charge. Of those services where a charge is not currently levied Garden waste would generate by far the largest level of earned income circa £1.3m per annum.

2. Council Tax – Council Tax is an important income source yielding 20% of the Council's income. It is assumed therefore that full advantage will be taken to increase Council Tax to the maximum level permitted each year.

3. Whilst the Council has been able to derive a significant amount of income from its assets a review should be undertaken to established whether there is further potential income earning potential that could be realised.

4. Undertake a review of all property assets to determine their purpose within the Council's overall portfolio together with the yield they generate. Current earned income from property assets £3.9m. Also ensure that void periods are kept to a minimum through active marketing of assets.

**Expenditure**

1. The City Council spends £76.1m net of Benefits and of this £41.5m (54.5%) is spent on employees. This is by far our largest cost and therefore when seeking to reduce our overall expenditure our employee spend needs to be considered. The financial strategy sets out a number of areas that could be considered when developing our future workforce strategy.

2. Service expenditure - The 5 services that represent the highest net cost for the Council are as follows:

   - Housing £17.7m with a net cost of £6.4m
   - Street care including the Market £4.5m with a net cost of £3.9m
   - Waste 9.4m with a net cost of £3.4m
   - Parks £6.1m with a net cost of £1.8m
   - Leisure £9.9m with a net cost of £0.9m

It is important for the authority to review all of its expenditure and to prioritise its services accordingly. The spend on Housing is of particular concern and a concerted effort needs to be made to reduce both the demand and the cost of housing in particular temporary accommodation.

**Opportunities to reduce costs or generate income**

In addition to the main expenditure and income sources there are smaller items where decisions need to be made on whether to retain existing levels of funding / service or not. All decisions will have some implications and therefore any strategy will need to look at the least worst.

1. Review the SLA's to voluntary bodies with the aim to reduce annual expenditure total spend £240k per annum. The voluntary sector provide vital services for our community however there may be some scope to reduce the Council's contributions in some instances.

2. Move from HVO fuel back to diesel. This is not desirable as it goes against our commitment to become carbon neutral however the additional cost of this fuel is £250k per annum.

3. A review of the capital programme has already been undertaken resulting in several schemes being rescheduled to later years. Given the pressure on the budget all schemes should be reviewed again to determine whether they are affordable and the implications of delaying these further. The Council should consider whether it only continues with schemes where there is a return o the capital invested or those which are required for health and safety reasons.

4. Aim to generate additional income or reduce the costs of the Civic Centre. This will include the creation of a serviced start up space for businesses in the Coval Building £35k

5. Undertake a review of our directly held housing stock to determine if there is any financial merit in the sale of our housing stock to CHP

6. Consider the potential sale of part or all of Chelmer Waterside. The cost of the infrastructure for Chelmer Waterside is putting a significant strain on our resources. For every £1m spent we are losing approximately £50k in interest. If we were to sell part of the site and generate for example £5m this would add £250k to our interest earned and reduce the pressure on the budget. This would however go against our desire to develop and deliver an iconic place shaping scheme. Such a decision is also likely to significantly reduce the amount of affordable housing that the site delivers.

7. CHESS provide essential support for the homeless in Chelmsford but do so in the capacity of a charity and not a registered provider. If the Council were to work with CHESS to support them to become a registered provider this would save the Council approximately £300k per annum.

**Potential Changes in Government Funding**

Whilst our financial strategy cannot rely on additional money from Government there are potentially further funding and these are set out below.

1. Extended producer responsibilities – The Government are likely to provide local authorities with additional grant from April 2026 as they make the producers of waste pay for its disposal. This could potentially provide the Council with additional income in the order of £1.4m per annum

2. The Government are being lobbied to increase the local housing allowance for local authorities to reduce subsidy loss. The current rates on which subsidy is paid are based on 2011 rent levels and if increased to 2024 rent levels this would benefit the Council to the tune of approximately £700k per annum.

3. Lobby Government to seek permission for full cost recovery on Planning fees. It is illogical that pro-growth authorities with an approved local plan and strong planning departments have to subsidise the cost of having these in place whereas poor performing authorities incur less cost. It is suggested that Local Government lobby Government to allow full cost recovery of their planning functions making developers pay fully for their planning permissions whilst driving u the quality of the planning function across the country.

4. Potential for additional government funding in new burdens grant for food waste collections. The government will require all local authorities to introduce food waste collection and are due to pay local authorities to introduce this service. The funding should apply to those who have already introduced such a service through the use of their own resources.

The overall financial position for the Council is tight in both revenue and capital and therefore both areas will need to be scrutinised in order to deliver balanced budgets. Underpinning this will be the Council's appetite for risk together with its reserve strategy the key components of which are set out below.

**Reserves**

1. There is limited scope to use reserves to temporarily fund service expenditure in 2025/26 and later years.
2. Reserves balances are needed to manage risks and known income shortfalls such as loss of rent income from Visteon and other commercial assets.
3. Any windfall increases in reserves should be used to reduce capital borrowing or assist in keeping revenue costs down such as on pay.

**Capital**

1. Community Infrastructure Levy (CIL) income should be directed to corporate priorities; however, financial planning should allow for the deferral of some schemes if expected CIL receipts are likely to be lower than currently predicted.
2. The use of Council capital resources and asset should be directed at financially attractive activities especially delivering more affordable housing and housing supply, whilst not jeopardising the Council's ability to place shape.
3. The use of borrowing to fund capital expenditure needs to be limited to ensure affordability for the next few years. This will minimise increases in financing costs which fall on revenue.