

Councillor Ian Harvey
COUNCIL TAX SPEECH 2020

Mister Deputy Mayor – I am pleased to present, on behalf of this Conservative administration, the Budget Report for the Municipal Year 2020- 21. For the fourth year running **we have set a below inflation council tax increase** whilst delivering a balanced budget without the use of reserves, cuts to services or sale of assets. Not only this but for the first time in living memory, on the basis of what we currently know, we have balanced the revenue budget for the next two financial years, very few councils are in that position. Our Council Tax increase of 1.29% will be the lowest council tax increase of any principal council in Surrey, and is a manifestation of the Value for Money we are providing for our residents. For the third year running we have kept our capital financing on a more sustainable basis by making a revenue contribution to fund non-income generating capital expenditure. We continue to focus on investing in our staff, assets and services to ensure we can deliver the high- quality services our residents and businesses deserve and expect.

We are now focused on delivering homes and regeneration within the Borough. Our acquisition of the long leasehold of Elmsleigh fits centrally within this, giving us complete control over this key part of the town centre. Over the next 5 years we are looking to deliver more than 1,000 new homes across the Borough to help address the housing needs of our residents. We

will be delivering affordable, keyworker, and emergency accommodation as well as private rental homes.

Our commercial assets continue to perform robustly, with the asset values increasing, the tenants paying their rent on time, and those assets which were fully let on acquisition remaining fully let. These assets are generating net income of £10m per annum for the Council to support the delivery of services for our residents. This is after meeting all costs including interest, (fixed for the duration of all loans), and crucially capital repayments, as well as building a significant sinking fund. This has offset the very substantial loss of grant income from central government and other funding. The funding has enabled us to continue to invest in our Independent Living Services, to help future proof it and ensure it can continue to meet the needs of our residents.

We are looking to embrace the Chartered Institute of Public Finance and Accountancy (CIPFA) new Financial Management Code and invited CIPFA to the Council a couple of weeks ago for a very positive workshop to explore how we can build on our existing governance arrangements to further

improve our resilience. In June, at our invitation, the LGA will be coming to do a Corporate Peer Review focusing on finance and property.

Our commercial assets income means that we are able to put forward a balanced budget, strengthening our resources and service delivery capacity even though 2020-21 will be the fourth year in which this Council will:

- receive no general Revenue Support Grant from the Government;
- have a significant cut in our New Homes Bonus Grant this time 27% (£203 thousand pounds)

Over past three years we have had reduced funding from Surrey County Council for recycling and Independent Living support – to date approximately a five hundred thousand pounds per annum loss.

We are adding net £6m to sinking fund reserves and setting aside £1.4m into a planned projects fund to pump prime and facilitate our existing pipeline of projects across the Borough. The majority, at least £900,000 of this fund will be ringfenced towards providing a Green Belt Protection Fund. The fact that we are adding to reserves rather than

drawing them down like a number of Councils is reflected in the latest set of scores from the CIPFA resilience index. By the end of 2020-21 we will have £22m in our sinking funds.

We are maintaining the funding of our Capital Programme on a more sustainable footing, after decades of relying on selling assets and spending capital receipts. For the third year running, we are ensuring that capital spending, which is not funded by specific grant and which does not generate future income streams (for example housing development or cashable savings), will be funded from revenue contributions to capital. In this budget there is a seven hundred and fifty thousand pound revenue contribution towards Capital.

In contrast to our position of continuing to maintain our budget on a sustainable basis, Surrey County Council still faces very significant financial pressures and is balancing its 2020-21 budget by a combination of £38m of service transformations, and additional income from the Adult Care Precept.

We have not only managed to avoid significant frontline service reductions, but we are investing in staff, assets, and resilience. The main areas of investment in this budget relate to Housing, Planning, Independent Living, resourcing our response to Heathrow expansion

Staffing

We need to retain skilled and dedicated staff in order to deliver our services to our residents. In recent years we have lost staff even to smaller neighbouring councils in a number of professional service areas. The budget year 2020-21 is the first year for which we are setting the staff pay increase following discussions with the Union under the new local collective agreement.

We have reached agreement with the local branch of Unison on a 2.5% increase in pay for all staff. This is reflected in the budget for 2020-21.

A significant cost pressure for us in this budget round has been the increase in employer pension contributions following the triennial valuation. As a result of our establishment numbers having rising by 73 Full Time

Equivalents since the previous valuation in 2016, reflecting the investment in staff resources we have made, our required contributions have risen significantly. In order to avoid compounding the pressures we face in 2021-22 with the potential impact of negative grant and loss of business rates, we are bearing the majority of the additional impact upfront in year one with an additional cost of £1.1m. By bearing most of the additional cost upfront, which we are able to do because of our robust financial position, rather than spreading evenly across three years, we receive an interest saving of approximately £60,000, which is a comparable rate of return to that we could achieve by investing the cash elsewhere.

Like most of the UK public sector and particularly local government, this Council is facing a challenging financial future, not only because of expected future cuts in the amount of business rates we will be allowed to retain but also because of financial and economic uncertainty. 2020-21 will be the fourth year we do not receive **any** revenue support grant. We have been facing the prospect of having to pay the Government a grant of seven hundred and fifty thousand pounds, i.e. effectively a negative grant. The

Government has delayed implementing this for a further year until 2021-22.

This has helped make balancing the 2020-21 budget easier but looms large for 2021-22. With only a one year Spending Review period in place we have no certainty as to how much business rates we will be allowed to retain beyond 2020-21. We will learn in the coming year the outcome of the so called Fair Funding Review which will determine how that pot is divided up, and then we have the implementation of the so called “75 per cent” business rates retention scheme nationally which could transfer business rates away from us. In our outline budget projection we are assuming a reduction in 2021-22 in the funding we are allowed to retain by central government of more than £1.5m

Before I focus on our Revenue Budget I would like to touch on our Capital Strategy and the approach we have taken to managing risks with respects to the commercial asset acquisitions we have made. As the Capital Strategy makes clear, having successfully closed the underlying revenue gap created by withdrawal of government funding, we are currently not actively pursuing commercial acquisitions out of the Borough and are now focused on driving

regeneration and housing delivery within the Borough. As well as acquiring the high-value, high-profile income-generating commercial properties focused on by the media, we have also been buying smaller, strategic sites in the borough that can be converted into residential properties. We now have sufficient land and property as a result of these smaller, strategic acquisitions to provide over 1,000 new homes over the coming 5 years. The focus of any finance-raising initiatives will therefore be on shorter term requirements to cover shorter term cost pressures. We will continue to manage very carefully our commercial property portfolio, with regular reports on the Portfolio as a whole, monitoring the financial health of tenants, and using internal and external expertise to manage the properties. We are currently setting aside £6m per annum to build up our sinking funds to cover future risks. This does not mean we are closed to other outstanding opportunities within our preferred area.

The Government has announced changes to the controls over council tax increases, with upper tier councils allowed to levy a 2% Adult Care Precept and Police and Commissioners allowed to increase Band D council tax by

up to £10 on a Band D (3.83% for Surrey Police). The limit of (the greater of) 2% or £5 per year on a Band D property will apply to districts and Boroughs. In our case a £5 increase equates to a 2.4% increase. We need to bear in mind the need to prepare for potentially very significant funding reductions from 2021-22 onwards possibly in excess of £1.5m. We have decided to increase council tax for 2020-21 by an amount that is significantly lower than the maximum increase allowed by the Government.

We will increase our council tax by 1.29% or £2.61 on a band D property. This is significantly less than the rate of inflation on either a Retail Prices Index (RPI) or Consumer Prices Index (CPI) basis and less than the increases in council tax being made by Surrey Police (3.83% or £10 on Band D) and Surrey County Council (3.99% or £58 on band D).

Indeed this will be the lowest Council Tax Increase of any council in Surrey. Our proposed increase on an average band D household is equivalent to an increase of £2.61 per annum or just 5 pence extra per week. Coupled with the fact that Spelthorne retains just over 10p in every £1 of council tax we collect on behalf of ourselves, the police and the County, we believe this

demonstrates our commitment to keep our portion of the bill as low as we can whilst protecting local services.

Underlying Interest rates continue to remain at historically low levels.

However in October 2019 the Government without any prior warning increased the margin on Public Works Loan Board rates available to local authorities by 100 basis points. Whilst some of this impact has been offset by underlying rates falling back since then, this has increased in the short term the cost of this source of loan finance (although PWLB rates are still comparable to what they were at the end of 2018). To be clear this does not affect our existing PWLB loans all of which are feixed rate for their term. So we are working with our treasury management advisers to explore alternative funding sources. In contrast, we earned an average of 4.75% on our core cash investments, for the first 6 months of 2019-20 whilst maintaining a sensible and prudent approach to risk. An average rate of return of 4.75% is an excellent return compared to the 0.5% many councils continue to accept.

The Capital Programme of £66.5m for 2020-21 before the Council includes:

- £6.4 million in 2020-21 to complete the Ceaser Court housing phase 1 development of 55 flats
- £4.25m for the Whitehouse hostel for single person homeless, which will be funded from a combination of Homes England Grant and s106 receipts
- Three million pounds for completing the conversion of West Wing of the Council's offices here at Knowle Green in to 25 affordable housing flats
- £2.8m for building a new fit for purpose Harper House for emergency accommodation for families
- £8m for initial improvements on the Elmsleigh site
- £15.75m on a number of housing and regeneration schemes across the Borough
- £20 million pounds for potential regeneration and strategic acquisitions within the Borough

In 2023/24 we have provision for a £1.3m contribution towards the River Thames scheme for flood relief. The importance of this has been put into perspective by recent weather patterns.

We want to work in partnership with public sector colleagues including health, tangible examples are the Ashford Hospital residential development where we are working with the Trust where the vast majority of new homes will be for key workers.

In the meantime in order to meet our future financial challenges we will focus ever more closely on:

- maximising revenue income from assets,
- generating new income streams – for example commercial refuse
- procurement savings
- flexible use of technology, and looking to use applications in smarter ways
- looking at how we deliver and prioritise services to residents
- reducing the running costs of our operational assets. Most notably we have reduced the size of our office footprint by 40%, which both enables the creation of 25 affordable housing units, the progress of which can be observed by looking out of the Chamber windows, while

also reducing our office running costs (business rates, heat and light etc),

Achieving a 40% reduction in office space is a significant outcome. I would like to thank all staff based at Knowle Green for their contribution in helping to make this happen.

Mister Deputy Mayor before I conclude I would like to reiterate this administration's recent key achievements:

- Delivering additional affordable homes to meet the needs of our residents
- Pro-actively pursuing initiatives to ease the pressure on our homelessness register
- We are investing financial resources into reducing our environmental footprint. The West Wing will have photo voltaic units above the affordable flats. We are building high environmental standards into our developments. Next month we receive delivery of two electric pool vehicles and we are looking to transition our existing fleets towards

electric vehicles. We now have two e-bikes, which the Chief Finance Officer has already tried out

- Having generated £10m of ongoing net income per annum to enable us to protect and enhance the services for our residents in contrast to some other councils in Surrey and many across the country.
- Continuing to maintain an excellent rate of return on our financial investments which places us in a good position to reinvest additional capital receipts
- Equally we are responding to the needs of our younger residents maintaining and refurbishing play areas in our parks.
- We continue to provide support for voluntary sector organisations across the Borough, with a direct grants support budget of £210,000, and once discretionary business rates relief and support in kind is taken into account, the value of that support is equivalent to more than £600,000 per annum.

I would like to thank the Chief Executive and his Management Team especially Terry Collier and his financial colleagues and all the staff for their support and assistance in preparing this budget.

I would like to thank councillors for making their contribution towards the Council operating more efficiently by embracing paperless agendas for Committees. I know this has resulted in the occasional technical issue. Given the future challenges we face it is important that we all, councillors and officers, continue to be focused on working more efficiently and making smarter use of technology.

I now formally move the recommendations of the Cabinet of 26 February 2020, as set out within the Budget Book, detailing the precepts by the County Council and Surrey Police and the Band D Council Tax levy for the year 2020-21 and commend this Budget to the Council.

Thank you Mister Deputy Mayor