

# Cabinet

27 January 2021



<b>Please Enter Title</b>	<b>Outline Budget</b>
<b>Purpose of the report</b>	To make a Key Decision
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<b>Cabinet Member</b>	Councillor Satvinder Buttar
<b>Confidential</b>	No
<b>Corporate Priority</b>	Financial Sustainability
<b>Recommendations</b>	<b>Cabinet is asked to:</b> <b>1. Agree the net budgeted expenditure (before investment and use of reserves) for 2021-22 be set at a maximum level of £22.1m</b> <b>2. To support the overall strategy set out in the report for addressing efficiencies and achieving medium term financial sustainability</b>
<b>Reason for Recommendation</b>	<b>The report sets out the parameters in which a detailed balanced for 2021-22 can then be worked up and puts forward an updated Medium Term Financial Strategy designed to respond to the challenges of COVID-19.</b>

## 1. Key issues

- 1.1 The key issue facing this Council, as indeed all Councils, is the impact of COVID-19 on the Council's finances and what the longer term financial effects of the pandemic will be. COVID-19 has resulted in the steepest economic shock to the UK economy for more than three hundred years.
- 1.2 In 2020-21 the Council has experienced significant reductions in services fees and charges income, drops in treasury management income, reductions in amounts of council tax and business rates collected, more residents moving on to localised council tax support. Additionally, the Council has incurred extra expenditure for example supporting the re-opening of its leisure centres, providing food and welfare support to shielded residents. In 2020-21 the Council has received additional grant support to offset much of this impact.
- 1.3 In modelling a possible range of Budget scenarios and outcomes for the period 2021-22 to 2024-25 and revising and refreshing in response the

Council's Medium Term Financial Strategy the Council needs to take a view on a number of factors including:

- (a) Extent to which services income such as car parking charges return to pre-pandemic levels, taking into account that some people's behaviour (for example increased online shopping) may have permanently changed and how long any recovery may take
- (b) Impact on local economy in terms of jobs, particularly with furlough not now ending until April 2021 and what this means for number of residents on localised council support (this reduces the Council's tax base), requiring housing support and struggling to pay council tax
- (c) What is a realistic council tax collection rate to assume?
- (d) What is the likelihood of additional Government financial support in 2021-22 in recognition of the above pressures?
- (e) Refreshing its reserves strategy and consideration of some planned short term use of reserves as part of a longer term strategy. The Council as at end of 2019-20 has £40m in cash backed reserves, and whilst a significant proportion of them are earmarked for specific purposes some could be applied to offset COVID-19 impacts
- (f) The interrelationship between the Council's housing and regeneration Capital Programme and the Council's Revenue Budget in terms of returns the Council will receive from its housing delivery company Knowle Green Estates. This will be influenced by the proportion of the housing programme delivered as affordable housing.

1.4 For all these reasons it is important, as the recent Local Government Association independent Finance Peer Review commented, that the Council carefully reviews and refreshes its MTFs and ensures it achieves a sensible balance between short and longer term measures and does not make knee jerk cuts which a more medium term approach could be applied to manage down the gaps.

1.5 As a result of COVID-19 the financial and economic world the Council is facing has changed. When the Council set its 2020-21 Budget in February 2020 it also on an indicative basis balanced its 2021-22 and 2022-23 Budgets. As a result of modelling since the government funding announcement in December 2020, the Council is still in a strong position and forecasting budget headroom in 2021/22 and 2022/23. However, the council anticipates experiencing budget gaps in 2023/24 and 2024/25. now on current assumptions, before Government funding announcements,

1.6 Whilst the Council is in a relative strong position, the impact of COVID-19 has been considerable and our modelling assumes that COVID-19 will still impact on our financial results until 2024/25, when we anticipate an improvement in general economic conditions.

The recent change in Council policy towards affordable housing delivery has been a key factor in the changes to the financial returns being generated from Knowle Green Estates.

## **2. Provisional Local Government Finance Settlement 2021/22**

2.1 The Government announced the Local Government Finance Settlement on the 17<sup>th</sup> December this year.

The 2021/22 local government finance settlement is for one year only and is based on the Spending Review 2020 funding levels. The details are shown below: -

- **Council Tax** –The council tax referendum limit will be 2% for local authorities, with social care authorities allowed a 3% social care precept, although this can be deferred to 2022/23. The provisional settlement confirmed that Districts and Boroughs will be allowed to apply the higher of the referendum limit or £5, latter in Spelthorne's case is 2.4%.
- **Business Rates Retention** –The business rates multiplier has been frozen for 2021/22. Therefore, the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remain at 2020/21 levels. However, the under-indexing multiplier grant has been increased, in order that local authorities do not lose what would have been the increase to the multiplier.
- **Revenue Support Grant (RSG)** – For those authorities still receiving RSG, this has been increased by 0.55%, in line with what would have been the increase to the multiplier.
- **New Homes Bonus** - The 2021/22 allocations have been announced. These will be paid with the legacy payments due from previous years (2018/19 and 2019/20). There will be no legacy payments for the new 2021/22 in-year allocation announced in the settlement.
- **Top Up/Tariff Adjustments (Negative RSG)** –The government has decided to eliminate the negative RSG amounts. This removes a medium term pressure in our Outline Budget projections/
- **Social Care Funding** –There has been an increase to the Social Care Support Grant of £300m. This has been allocated based on Adult Social Care relative need (£60m) and the ability to raise resources through the social care precept (£240m).
- **Lower Tier Services Grant** – A new un-ringfenced lower tier services grant of £111m was announced by the Minister. This has been allocated via 2013/14 Settlement Funding Assessment levels (£86m) to ensure that no authority has a total Core Spending Power less than in 2020/21 (£25m). It appears that this is a one off grant for 2021-22
- **COVID-19 Funding** –Funding was announced of £2.2bn to support local government in 2021/22, alongside support for local tax income and the spreading of deficits. This funding is not included in the Core Spending Power figures.
- **Local Government Funding Reform** – No papers were published relating to the Fair Funding Review or the Business Rates Reset and the Minister would not confirm that the reforms will even take place next year.

2.2 The specific implications from the settlement for Spelthorne are:-

- **Council Tax**- Spelthorne will be able to increase Council Tax in 2021/22 by the greater of 2% or £5 (2.4%) without a referendum.

- **Business Rates-** Local Businesses will not face an increase in Business Rates in 2021/22 as a result of an increase in the multiplier, as this has been frozen at the 2020/21 level. The Council will be compensated for this loss of income through Section 31 Grant.
- **Collection Fund Deficits-** The Government is introducing legislation to enable Councils to spread Council Tax and Business Rate deficits on the Collection Fund over a 3 year period. This will reduce the 2020/21 deficits which need to be addressed as part of budget setting in 2021/22 which have resulted from Covid-19 in 2020/21 but will add to the pressures in the two subsequent years.
- **Irrecoverable Council Tax and Business Rate Losses-** MHCLG has introduced arrangements to meet 75% of irrecoverable losses, this is subject to consultation and will recompense Councils for any losses incurred. This excludes losses relating to non-payment of Council Tax or Business Rates.
- **Negative RSG-** MHCLG has fully funded Negative RSG as part of the Comprehensive Spending Review, there is now no threat of this being imposed as part of the roll-out of Business Rate Reset.
- **New Homes Bonus-** The Council will receive legacy payments of £252,000 in 2021/22, which consists of legacy payments of £247,000 plus an additional allocation of £5,000 announced in the settlement.
- **Lower Tier Services Grant-** The Council will receive £82,000 in Lower Tier Services Grant in 2021/22.
- **Covid-19 Funding-** The Council will receive £506,000 in Covid-19 Grant in 2021/22 for COVID-19 expenditure pressures in 2021/22. The Council will continue to receive a Sales, Fees and Charges Grant for the 3 month period April-June 2021. This grant is to mitigate the loss of income occurring as a result of Covid-19 and provides for 71.25% of income losses overall for the 3 month period. The Council will receive £114,000 in Local Council Tax Support Grant as compensation for higher levels of Council Tax Support claimants.
- **Surrey Business Rates Pool-** For 2021/22 Spelthorne will be part of the Surrey wide business rates pool. A business rates pool is where a top up council (i.e. a council, such as a county council, which receives a transfer of business rates from other councils) combines with a group of tariff councils (i.e. councils which are making transfers to other councils, for example any of the Surrey districts and boroughs) in such a combination that the 50% levy the tariff councils have to pay on any growth in their tax base above the baseline set by the Government is reduced to more or less zero. If the pool proposal were accepted Spelthorne would be one of four Surrey districts and boroughs combined with Surrey CC. This would enable us to potentially retain an additional £300k to £600k of business rates which are not ring-fenced.

The overall funding provided to the Council through Council Tax and Business Rates raising powers and in the form of government grant to the Council is measured and controlled by Government through the Core Spending Power.

The increase in the Council's Core Spending Power in 2021/22 is 1%. A detailed breakdown of the Council's Core Spending Power showing a comparison with other Authorities is shown at Appendix A.

### **3. Options analysis and proposal**

#### **3.1 The Outline Budget needs to cover the following areas:**

- (a) Funding support from the Government including New Homes Bonus, and short term Covid-19 funding and address the risks and volatility associated with increasing reliance on business rates retention and the potential for the amount of business rates allowed to be retained to be reduced in future years. Given the impact of Covid-19, future additional revenue from Business Rates may not be assured in the short to medium term.
- (b) Anticipated external pressures such as statutory changes impacting over the outline budget period.
- (c) Need to invest in meeting the challenges of climate change, which may generate upfront capital requirements whilst potentially generating future revenue benefits.
- (d) The impact of pressures on Surrey County Council cascading down as a result of reduced funding from the upper tier authority and its transformation proposals which may have knock on effects on districts and boroughs.
- (e) How we fund our corporate priorities by generating increased sustainable income streams
- (f) The level of Council Tax, which the Council wishes to levy
- (g) Future assumptions on interest rates and investment types.
- (h) The level of services that the Council wishes to provide and the level of revenue expenditure the Council wishes to incur in the provision of those services. This is particularly important in light of the significantly constrained Government funding the Council will now receive.
- (i) The level and range of charges the Council should make for its services.
- (j) The use of revenue reserves (if any) the Council wishes to use to support that level of service.
- (k) The level of reserves the Council wishes to retain to provide investment income and ensure stability for the future.
- (l) The alternative use of reserves to generate future savings.
- (m) To review the Council's portfolio of assets to ensure that it is maximising value obtained from use of assets (both in terms of cost of maintaining those assets and income generated from them) and to review opportunities to rationalise the portfolio and generate additional income streams.
- (n) The level of capital expenditure which the Council wishes to support and how it will seek to borrow, including being prepared to borrow where there are robust business cases in support. This will be more fully

expanded on in the Capital Strategy document which will be updated and will go to February Council for approval.

- 3.2 There is still some uncertainty around Business Rates, with the roll out of 75% business rate retention which has been pushed back to 2022-23 or later. When the change happens it is anticipated that in relative terms Surrey councils may lose and that there may also be a further shift in resources towards upper tier councils with responsibilities for adult social care. We therefore have anticipated in the years beyond 2021-22 there will be steady reductions in the amount of business rates we as a borough council will be allowed to retain, other districts and boroughs are making similar assumptions. These assumptions have been fed into our projections are a key factor in the increase in the budget gap, this is further discussed below.
- 3.3 The above uncertainties are some of the main drivers in the projected budget gaps summarised in Appendix B which will not be sustainable if not addressed.
- 3.4 The projected gaps currently include an assumption around the level of growth required by departments. The actual growth bids and savings have been reviewed by Management Team. The Council has identified some further potential savings options, which are more extensive in nature and far reaching and these would take some time to review and implement.

**Projected Budget (Surplus)/Deficit if mitigating actions not put in place (positive figures indicate a budget shortfall to be addressed):**

	<b>2021-22 £'000</b>	<b>2022-23 £'000</b>	<b>2023-24 £'000</b>	<b>2024-25 £'000</b>
Estimated Gap	(658)	1,284	2,324	282

All Councils are facing significant financial pressures, this problem is particularly acute amongst District and Borough Councils. The current discussions with neighbouring Districts and Boroughs within Surrey in relation to Unitary debate introduces both a need and an opportunity to work together collaboratively to share services and make savings as partners. This is not a solution in the short term but could certainly make a contribution over the medium term if Members were so minded.

**4. OUTLINE BUDGET 2021/2022 – 2024/2025**

- 4.1 Attached as Appendix B-1 is a summary of projected expenditure and possible financing to 31 March 2025. The budget gap shown in the table above is the base case projection (AppB-2) which assumes no increase in Council Tax and a 2.5% Pay Award and service expenditure totals £22.1m in 2021/22 in this projection. Alternative scenarios are also provided with a reduced pay award of 0% and 1% and with varying Council Tax increases (AppB3-8).
- 4.2 The scenario which yields the smallest aggregate budget gap for the outline budget period is AppB-8, with a £5 increase in Council Tax and a 1% overall Pay Award.

4.3 Discussions have taken place with Unison pay award based around a 1% package. This is based on

- 0.75 % Pay Award for all staff
- An additional 0.25% for the lowest scales Scale1-3.
- A fixed one of payment, at a cost of 0.25%, which equates to a payment of approximately £100 for all staff.

Following a discussion between Officers and Unison, it has been agreed that the Council will honour any national award agreed in excess of the above.

4.4 Currently the Council's treasury management investments are performing well with the core investments achieving an average of 4.2% in 2019-20. It is anticipated this level of performance can be maintained and has been built into the Outline Budget projections. This level of performance will also help generate interest on the monies being set aside in the sinking funds building up to cover future needs to incur expenditure on our commercial assets such as capital refurbishments or to cover rent free periods.

4.5 The Council has made excellent progress with respect to taking opportunities to maximise income streams from assets. As result of recent acquisitions the Council has secured additional income from assets for a sustained period well beyond the outline budget period of around £10m per annum net of financing and management costs. The Council has grown its dedicated property unit to ensure that it has the right mix of expertise to manage a significant commercial portfolio. The Council also uses a range of advisors to ensure it continually monitors the performance of its portfolio.

4.6 In 2021-22 the Council's commercial assets portfolio will generate a net (after paying interest, loan repayments, supervision costs, and sinking funds set asides) £10.4m to support the Council's revenue budget, see table below:

	<b>2021-22 £'000</b>	<b>2022-23 £'000</b>	<b>2023-24 £'000</b>	<b>2024-25 £'000</b>
Gross Rental Income due	(53,964)	(54,032)	(52,640)	(52,745)
Loan Interest Payable	23,349	23,176	23,029	22,864
Minimum Revenue Provision	12,327	12,637	13,070	13,081
Contribution to Sinking Funds	6,814	7,709	6,814	5,674
Set aside for specific revenue purposes	1,030	1,030	955	955
<b>Net Income (used to fund Revenue budget)</b>	<b>(10,444)</b>	<b>(9,480)</b>	<b>(8,772)</b>	<b>(10,171)</b>

4.7 The projected sinking fund balances at the 1 April each year is summarised in the table below:

	<b>2021-22</b> <b>£'000</b>	<b>2022-23</b> <b>£'000</b>	<b>2023-24</b> <b>£'000</b>	<b>2024-25</b> <b>£'000</b>
BP Main Site	4,409	5,409	6,909	8,409
BP SW Corner	998	1,148	1,298	1,448
Elmbrook House	488	538	588	638
Hanover House	0	0	400	850
12 Hammersmith Grove	4,244	3,657	4,615	5,772
Stockley Park	1,327	1,087	1,287	1,487
WBC4	400	600	1,000	1,450
Communications House	1,554	2,054	2,054	2,054
Thames Tower	3,048	4,098	5,123	5,048
Charter Building	5,264	7,064	8,924	10,424
Porter Building	1,584	1,674	1,124	839
Summit Centre	641	891	1,141	1,391
Elmsleigh Centre	770	695	1,076	1,653
<b>Total</b>	<b>24,727</b>	<b>28,915</b>	<b>35,539</b>	<b>41,463</b>

The downward movement in the sinking fund reserve for a property over the budget period reflects a drawdown to offset a estimated or known void/rent free period.

- 4.8 The budget assumes the Harper House and the Whitehouse Hostels will be completed and open for use in 2021-22.
- 4.9 The Council will continue to take forward the strategies outlined above to help support the revenue budget in future years. Additionally, the following factors and actions are anticipated to help close the gaps:
- Review identified proposals for expenditure reductions identified as part of 5%, 7.5% and 10% exercise.
  - Further prioritisation of growth proposals
  - Capitalise on potential for sharing of back office services and front of house services through collaboration with Surrey Boroughs and Districts
  - Focus on cross cutting savings in areas such as printing, postage
  - Assessing one off use of new and existing grants
  - Pursuing external funding from business partners
  - Reviewing revenue contributions to finance capital to ensure sustainability of the Capital Programme
  - Root and Branch efficiency outcomes

- Additional income levels being generated by some service areas

## 5. **The Level of Revenue Reserves to use in Support of the Council Tax**

5.1 Reserves are financial balances set aside within the Council's balance sheet to enable future financing of revenue or capital expenditure. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves. The key general reserve is the General Fund.
- Funds to meet known or predicted liabilities and future spending are often referred to as earmarked or specific reserves. This purpose is reflected in the build-up of sinking fund reserves for our commercial assets.

The cash balances held in our reserves are invested to earn interest income which helps support the overall revenue budget and the provision of services.

5.2 The Council currently uses specific revenue reserves to finance expenditure in the following ways:

- a) Interest equalisation – is built up in years when investment returns are better than expected and used to support investment income in years when returns are lower.
- b) The Housing Initiatives Reserve has been identified as being a source of funding for supporting Housing Strategy initiatives.
- c) Sinking funds for commercial assets to be built up to cover potential end of lease refurbishment and possible future void and rent free periods.
- d) The Local Environmental Assessment reserve has been set up to enable the Council to react to any environmental impacts on the Borough.
- e) The Planned Project Reserve has been set up to allow the council to progress environmental and other sustainable projects

5.3 In order to deliver the Council's ambitious housing programme, as set out in the Housing Strategy and Capital Strategy, there will be a need to borrow over the outline budget period to fund the capital expenditure. Given the relatively low rates the Council can obtain from the likes of the Public Works Loan Board (PWLb); Homes and Community Agency or the European Investment Bank it is more cost effective to borrow rather than draw down medium term investment funds. The Council's treasury management advisers Arlingclose have assisted in developing the Council's borrowing strategy. It should be noted however that Council's cannot borrow to cover deficits in their Revenue Budgets.

- 5.4 Any underspend in the current year's budget can be set aside to assist with funding 2020-21 or beyond, at quarter 2 of 2019-20 the projected underspend that would be available to assist future years is around £3m.
- 5.5 At 1 April 2020 Useable Reserves were as follows:

	<b>2020 £'000</b>
Capital Grants	453
Revenue Grants Unapplied	2,325
Capital Fund*	1,443
Insurance Reserve	50
Planned Spending Funds	11,295
Funds for Acquired Properties	20,511
Youth Fund	20
General Fund Balance	1,248
Local Environmental Assessment Reserve	317
Contributions from developers	2,269
<b>Total</b>	<b>39,931</b>

Note: The funds for acquired properties are being built up in a planned way to ensure that the Council has sufficient funds to protect council taxpayers in the event of future need to incur expenditure on capital refurbishments of the assets and to cover future possible void and rent free periods. The balance on these funds will increase by a further £6m by the end of 2020-21.

## **6. The Level of Capital Expenditure to be supported**

- 6.1 Each year the Council approves a four-year Capital Programme, which is split between Housing and "Other Services."

Funding for the Capital Programme is financed by a mixture of Capital receipts, Capital Grants, S106 receipts, Revenue Contribution to Capital (£750k) and borrowing where required.

Commercial income generating assets acquisitions are funded through borrowing, however these are designed to ensure that they generate a net surplus in excess of borrowing costs in order to provide funds which can be used to support the revenue budget.

## **7. Financial implications**

- 7.1 The financial implications are set out in the report.

**8. Other considerations**

- 8.1 Any service reductions put forward as part of the Budget process will be subject to Equality Impact Assessments.

**9. Sustainability/Climate Change Implications**

- 9.1 The Council has declared a Climate Change Emergency. In the short term this may mean additional upfront investment. However, longer term it should also be associated with reduced energy usage and transport costs for the Council. When the detailed budget proposals are brought forward environmental impacts will be part of the criteria used to evaluate savings and growth proposals.

**10. Timetable for implementation**

- 10.1 A detailed Budget Timetable has been issued to ensure that the Council is in a position to agree a balanced Budget at its 26<sup>th</sup> February Council meeting.

**Background papers:**

**Appendices as at 120121:**

**Appendix AppB1 – Summary of 7 scenarios (AppB2 – AppB8 below)**

**Appendix AppB2 – Base Case scenario**

**Appendix App B3 - Council Tax 0%, Pay Increase 0%**

**Appendix AppB4 - Council Tax 0%, Pay Increase 1%**

**Appendix AppB5 - Council Tax Increase at 0.5% (CPI), Pay 1%**

**Appendix AppB6 - Council Tax Increase at 1%, Pay 1%**

**Appendix AppB7 - Council Tax Increase at 2%, Pay 1%**

**Appendix AppB8 - Council Tax Increase £5, Pay 1%**

**Appendix – Summary of growth bids**

**Appendix – Summary of savings bids**