

Corporate Policy & Resources Committee



29 November 2021

Title	Outline Budget Report 2022-23 to 2025-26
Purpose of the report	To make a decision
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	<p>Committee is asked to:</p> <p>Recommend to Council that the base budget for 2022-23 takes into account an additional 1% pay award for 2021-22 to bring Council staff up to the level of the national pay award increase.</p> <p>Recommend to Council that the Council applies the maximum empty property council tax premia for properties which are empty for a) up to 2 years, b) 5 to 10 years and c) more than 10 years</p> <p>That the Council seeks to protect its council tax base over the four-year outline budget period by increasing the council tax by the maximum allowed by the Government limits, whilst seeking to finding savings and efficiencies to close its budget gaps</p> <p>That the Committee supports the range of measures set out in the proposed Medium Term Financial Strategy (MTFS) within the report</p>
Reason for Recommendation	<p>The report sets out the parameters in which a detailed balanced Budget for 2022-23 can then be worked up and puts forward an updated Medium Term Financial Strategy for the period 2022-23 to 2025-26 designed to respond to the challenges of a post COVID-19 future around lost fees and charges, and how quickly these will recover, together with, increased inflationary pressures and a substantial pay award.</p>

1. Key issues

- 1.1 Spelthorne Borough Council is obliged by law to deliver a balanced budget for the year 2022/23. The Council needs to ensure that any actions, taken or not taken, are mindful of impact over the following three years from 2023/24 to 2025/26 on the Council's medium term financial position.
- 1.2 In this context, Council also needs to be mindful of the challenges and opportunities it is facing over the next four years through to 2025/26 and beyond, and develop a medium-term strategy that is robust, challenging and above all else achievable, to cover the forecast deficits below, based on the Appendix included in the Budget Briefing Presentation made to all councillors on 8 November 2021.

Noting that this is a starting point and agreed action by Council could significantly increase or decrease the forecast deficits. The table below sets out current potential Revenue Budget deficits based on a central set of assumptions (including maximising tax base under current Government limits) but before further mitigating actions are taken to close those gaps.

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
(Surplus) or deficit	960	838	2,611	3,373

- 1.3 Choices will need to be made, some more difficult than others, as each Committee looks to ensure that its services are maintained, some new services are implemented, and some services are reduced.
- 1.4 As we come out of the COVID-19 pandemic and for all the reasons mentioned throughout this report it is important that the Council carefully reviews and refreshes its MTF 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 At the full Council meeting in February, Council will need to agree the final balanced budget for 2022/23 and set the Council Tax level.

2. The Context and the challenges

- 2.1 Emerging from the worst economic downturn in over 350 years, caused by COVID-19, the Council and the Borough will still feel the effects of the pandemic for several years to come and several issues from last eighteen months will remain unresolved for a few years to come.
- 2.2 Council must have regard to these issues and where possible implement sound policies to deal with these issues, including:
- (a) The extent to which services' income such as car parking charges return to pre-pandemic levels, considering that we are seeing changes to people's behaviour, for example, increased home working and online

shopping, have they permanently changed and impact on the time any recovery may take?

- (b) What will the impact be on our local economy in terms of jobs, particularly as furlough as we move past the furlough scheme coming to an end in September 2021 Are we going to have to provide more localised council tax support (this reduces the Council's tax base) for our residents struggling to pay council tax? Are we going to see a rise in numbers of residents presenting themselves seeking housing options support, particularly with the ending of the national moratorium on landlords' evictions.
- (c) The delays in developing our residential property schemes, following the Council agreed Staines high rise Moratorium in January, are incurring monthly costs of over £100k. Officers are constantly reviewing our policy of capitalising borrowing costs in the light of these delays and section 4.8 of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in respect of borrowing costs, which could result in an additional £1m per annum capital costs being written off to revenue costs, which is the equivalent of running our day centres for almost two years.
- (d) What will happen when Heathrow Airport returns to pre pandemic levels of travel on the local jobs market and unemployment?
- (e) What is a realistic council tax collection rate for us to assume over the next few years? The Council Tax base report on the agenda is assuming a 3% non- collection rate for 2022-23.
- (f) Despite extensive lobbying, officers are not anticipating that the Council will receive any significant additional Government financial support in 2022-23 in recognition of the challenges faced with income recovery.
- (g) Refreshing the Council's annual Reserves Strategy and consideration some planned short term use of reserves as part of a longer-term strategy to balance our budget and maintain financial stability for the Council. At the end of 2020-21 the Council has £55m in cash backed reserves (excluding funds earmarked to be applied for COVID-19 funding purposes), and whilst a significant proportion of them are earmarked for specific purposes, some could be applied to offset the budget deficits.
- (h) 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.
- (i) **Pay Awards**
 - i) **2021/22**

Council approved a 0.75% for all staff above the lowest three pay scales and 1.0% for the three lowest pay scales. When Spelthorne Borough Council move to a local pay negotiation process it committed to aspiring to match the national award subject to affordability. Following a clear steer from Councillors it is

recommended that that a supplementary revenue estimate of an additional 1.0% for staff above the lowest three pay grade and 0.75% for the lowest pay grades is approved by Council and that this is then built into the base budget for 2022-23. This equates to an additional £200k approx.

2022/23

The local Unison branch are formally asked for a 4% pay increase for staff but have stated that if the Council increases the 2021-22 award by 1%, they will moderate their request for 2022-23 to 3%. The Council will need to balance the business need of seeking to remain competitive with other councils to recruit and retain the talent it needs to deliver services for its residents against what is affordable within Budget constraints. Currently the central case Outline Budget projections model a 2% annual award for the years 2022-23 to 2024-25. Each 1% increase in pay award equates to approx. an additional £200k pressure on the revenue budget.

Account needs to be taken of the additional 1.25% increase in Employers National Insurance contributions taking effect from April 2022. This equates to approx. £200k and has been built into the Outline Budget projections. The Government has indicated that it is seeking to provide additional funding to public sector bodies to offset this. However, at this stage on the grounds of prudence we have not allowed for any offsetting funding as a) it is not clear how much funding we would receive nor how long term such funding might be

- (j) **Pensions** - Local Government pensions are subject to a triennial valuation every three years. The next one is due to reflect the position as at 31 March 2022 and would impact on employer pensions contributions for the period 2023-24 to 2025-26. The Outline Budget projections has assumed that this will result in an increase in employer contributions from 2023-24.
- (k) **New Spelthorne Leisure Centre** – once it is constructed is unlikely to fully cover its costs in 2024/25 and for the next few years. This has been reflected in the Outline Budget projections.
- (l) **Additional Statutory Duties** - we also need to be mindful of the potential for additional statutory duties and requirements being imposed on councils during the Outline Budget period, a potential example could be the proposed waste management changes such as universal green waste collection being proposed by DEFRA in a few years' time which could have a significant cost impact on our refuse collection arrangements
- (m) The above list is not exhaustive.

2.3 Opportunities

Not only will there be challenges, but there will also be opportunities including:

- 2.4 **Partnering** – Over the last few years, SBC have been partnering with other councils to ensure that the emphasis is on service delivery, rather than additional administration or supervision. These have included:

- (a) Counter Fraud – with Reigate & Banstead Council
- (b) Building repairs – with Runnymede Borough Council (brought in house from April 2021)
- (c) Family Support - with Elmbridge and Epsom and Ewell Borough Councils and Surrey County Council

These are just a few of the successful partnerships the council are involved with locally for the benefit of our taxpayers.

Officers are currently in discussion with Mole Valley District Council about combine the Finance Teams of the two Councils, to improve resilience, aid recruitment and deliver efficiencies, particularly around Integra.

Should the Council look to outsource some of its services to other Councils, alternatively, should Spelthorne Borough Council establish itself as an outsourcing shared service? In the context of the financial challenges all councils are facing and uncertainties around the future of local government in Surrey it is particularly timely to look at these opportunities. There is a separate paper on this Agenda set out a structured approach to considering such opportunities

- 2.5 **Knowle Green Estates (KGE)** - delivering Council's elements of the approved Housing Strategy for private renters and affordable housing in the Borough. with the ability to provide SBC with substantial long term annual funds to support regeneration and support services within the Borough, monies to support services or funding to our capital programme.
- 2.6 **Investment Properties** – there is an increase in the rental paid from one of our larger properties, which provides an opportunity to have some of this extra income fund services, whilst future proofing the next few years, by charging some to the sinking funds to use against unexpected defaults from tenants in subsequent years. At the same time, we need to continue to prudently model the need to set aside appropriate levels of sinking funds to ensure sufficient funds to cover future potential liabilities.
- 2.7 **Invest to save** – are there any opportunities for Committees and officers to invest in 2022/23 to deliver savings in subsequent years, for example, with the success of home working during the pandemic, is it time to replace the dummy terminals at the office and supply everyone with a laptop?
- 2.8 **Digital Transformation** - The Council has a digital transformation programme and has recently appointed a digital transformation programme manager. The Council and will explore opportunities to deliver services more efficiently using technology. However, it will ensure that services remain accessible to those who are less digitally literate. The Council will also explore opportunities to reduce the number of software applications it is paying for by seeking to better align and integrate applications.
- 2.9 **Knowle Green Offices** - Explore whether the Council still requires its current office footprint or whether there are opportunities to make its services more accessible and deliver significant ongoing revenue savings
- 2.10 **Procurement savings** – the Council spends approximately £19.25m on revenue services and currently has a capital programme where we anticipate spending more than £320m on vehicles, property and IT. The procurement team has been asked to identify opportunities to make procurement savings

- 2.11 **Green initiatives** – these are going to be at the forefront of everything we do over the next few years, what opportunities are there for the Council to exploit? Whilst there may be an initial upfront investment requirement initiatives which reduce the Council's spend on fuel or energy will deliver financial benefits as well as environmental benefits. An example is the Council's investment in meeting the Passivhaus standard in its new Leisure Centre
- 2.12 **New Corporate Plan** – once agreed by Council, what are we doing to ensure that all services are delivering against its objectives? The Plan can assist in ensuring that delivery is aligned with a clear set of priorities. Perhaps working with the Continuous Improvement Process team to establish what tasks need to keep being delivered, what needs to be stopped, particularly as it does not fit with the Corporate Plan.
- 2.13 **Centros** – our current Enterprise Resource Planning financial system Integra, will shortly no longer be supported by Capita, who have developed a new system called Centros, which is an evolution from Integra and is fully supported. Centros provides the Council with several opportunities to drive efficiencies, including:
- (a) Business intelligence dashboards – is an information management tool that analyses information and displays it graphically.
 - (b) Application Programme Interface – enabling us to open our data for the development of apps for our services.
 - (c) Standardising reports – getting the system to produce the report so you don't have to data dump into excel and manipulate the data.
- 2.14 **Empty property premia** – opportunity to increase revenue for the Council, but we must also take advantage of Surrey County Council (SCC) offer to spend their share of this income of related project in our Borough. Following a clear steer from Councillors it is recommended that the Council applies the maximum additional premia applicable for a) properties which are empty up to 2 years, b) empty for 5 to 10 years and c) empty for more than 10 years.
- At the same time, it is recommended that the Council engages with Surrey County Council to accept its offer of allocating its share of the additional council tax raised to support projects which align with County projects/priorities.
- 2.15 **Current initiatives**
- 2.16 Officers have several initiatives that they have been working on to drive efficiency, reduce costs or increase income, some have been mentioned separately in this report, particularly around partnering, and also including:
- 2.17 **Continual Improvement Process** – we have had several successful projects including:
- (a) **Replacing Capita payment options by e-forms:** Phase 1 of this project has been completed and 5 e-forms have been developed and implemented. These e-forms have helped simplify the payment process on Spelthorne website and improved customer journey to make payments (approx. time savings of £21,000 per annum).
 - (b) Website changes on payment portal have helped improve customer experience by providing a seamless transition from Spelthorne website to the payment portal (approx. time savings of £9,000 per annum).

- 2.18 **2.5% and 5% savings** – Group Heads have been asked to come up with their ideas for achieving these two levels of savings, which will be circulated to all the Committees shortly to feed into Committee's consideration of their budgets during the January 2022 committee cycle.

2.19 **Medium Term Financial Strategy (MTFS)**

Continuing to refresh our medium-term financial strategy (MTFS) will help bring together all known factors affecting the Council's financial position and its financial sustainability into one place. This should be as wide ranging as possible and include all the assets and liabilities on an organisation's balance sheet. This is particularly important, and challenging, in the context of the significant additional uncertainties generated by the financial impacts of COVID-19 some of which have yet to be fully felt. It allows the finance team to balance the financial implications of objectives and policies against constraints in resources. This should in turn form the basis for decision making.

A good MTFS should provide a clear and concise view of future sustainability and the decisions that need to be made to address any gaps in long-term financing. It forms the pivotal link to translate the organisation's ambitions and constraints into deliverable options for the future.

- 2.20 The above approaches set out in the opportunities and current initiatives sections will underpin the Council's medium term financial strategy.
- 2.21 It should be recognised that several the options outlined such as reconfiguring office accommodation or digital transformation or integrating ICT infrastructure will take a number of years to implement and that there may be a case to make some short-term specific use of reserves to allow the Council time to deliver savings to fully close the Budget gaps over the Outline Budget period.

3. **Financial announcements and implications**

- 3.1 **Council Tax** – As a lower tier authority the Council under the current Government rules, it can increase its share of Council tax by the higher of 2% or £5 on Band D. For Spelthorne £5 on Band D equates to 2.4% for 2022-23.
- 3.2 In comparison upper tier councils such as Surrey County Council can increase their Council tax by 2% for general services plus an additional 1% for Adult Social Care Levy.
- 3.3 **Provisional Local Government Finance Settlement (PLGFS)** – this is expected to be announced in December.
- 3.4 **Business Rate** – The business multiplier has been frozen for another year. Whilst it has not yet been formally confirmed it is anticipated that the Business Rates Retention scheme is going to remain unchanged at 50% (this does not mean councils retain 50% of business rates but above a baseline they gain 50%) and that the associated baseline levels will not be reset for councils. There are some indications that the focus on Levelling Up by the Government may cause Government to reflect further on whether it wishes to move to a 75% Business Rates retention scheme. When the business rates baseline is reset, there is a risk for the Surrey councils as when the baseline was set in 2013-14 for the 50% retention system the Surrey Councils did relatively well. Business properties will be revalued every three years from April 2023.

The Government has announced 50% discount on business rates for retail, leisure, and hospitality sectors for 2022/23. This is effectively continuing the business rates support providing since the first pandemic lockdown (2020-21 was 100% relief) for these sectors but on a reduced basis.

The Government has also 100% discount for improvements to business properties. We do not yet have details as to how this will be applied.

Compensation is expected to be made to councils to offset the loss of income arising from business rates reliefs.

3.5 **New Homes Bonus Grant** – The PLGFS will announce figures and confirm whether the scheme is being extended

3.6 **Spending Review** - In the Spending Review the bulk of additional funding for local government was focused on Adult Social Care Funding. Despite the fact Spelthorne provides day centres, meals on wheels and community alarms we will not benefit from any of this additional fund

3.7 **Homelessness and rough sleeping** – funding to be increased nationally by £639m in 2024/25

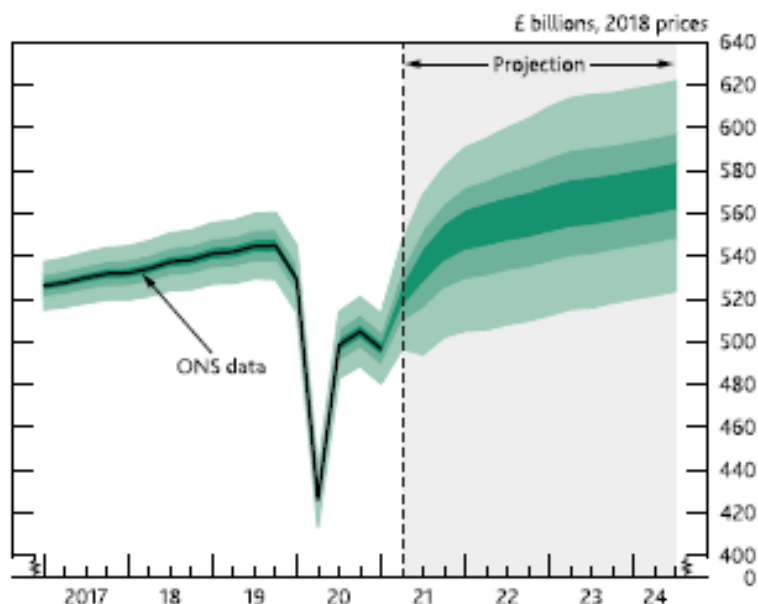
3.8 **Heritage & Cultural infrastructure** – an additional £850m is being made available nationally.

4. Other considerations

4.1 Bank of England

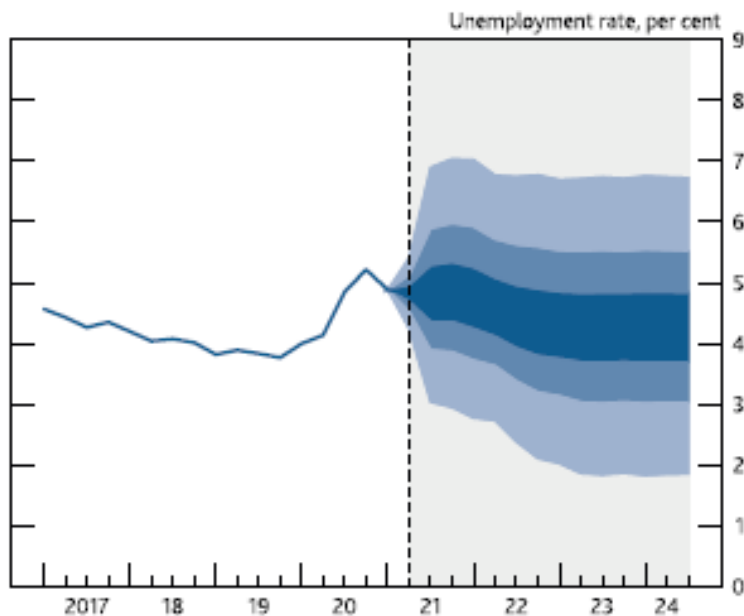
4.2 The Bank of England produces regular updates and forecasts and shown below are

4.3 UK GDP



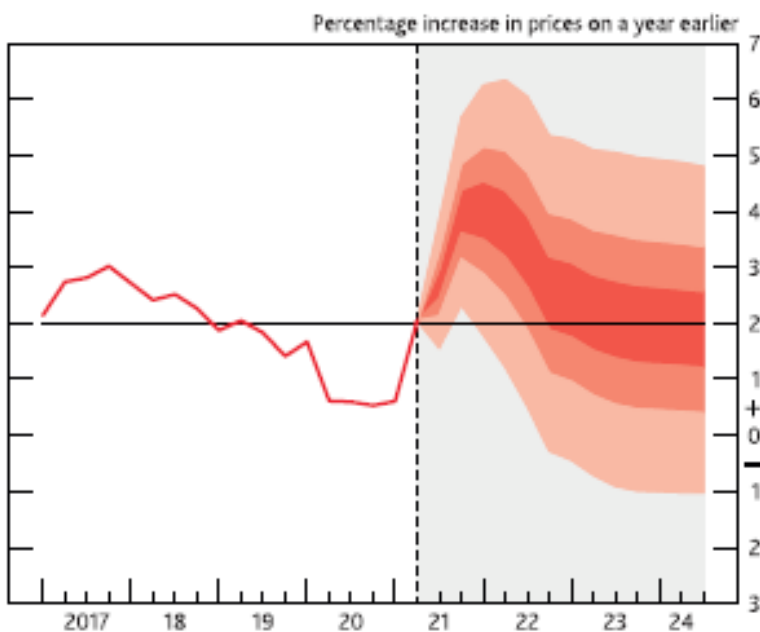
4.4 UK Growth continues to grow as the economy recovers from the severe recession caused by COVID-19, and the forecast is for further growth in GDP over the next four years, with the expected outcomes, shown by the dark green banding.

4.5 Unemployment



- 4.6 The Bank of England believe the next four years show a decline in unemployment (following the rise caused by the pandemic), (dark blue banding showing a downward trend) and the extension of the employment support scheme (furlough) is going to significantly limit any near term rise in the unemployment rate.

4.7 Inflation



- 4.8 We are seeing the impact of inflation for a variety of reasons, energy, and petrol, when combined with material and labour shortage in the construction industry, the Bank of England are forecasting an inflation figure of over 4%, in mid-2022, reducing to around 2% in 2024. Rising inflationary pressures are a significant pressure on the Council's budget particularly with respect to fuel and energy costs

4.9 Interest Rates

- 4.10 **Gilts** – the Public Works Loan Board (PWLb) is the Council's banker, and, unlike personal mortgages which are linked to the Bank of England base, the

PWLB interest rate is linked to the 20-year gilt market, which is less volatile than the base rate.

- 4.11 Our advisers, Arlingclose are predicting two small increases in the 20-year gilt rate over the next two years of approximately 40 basis points and because we work on minimising our interest rate risk on completion of each project, we will fix our loans for the next 50 years and therefore, there is no material impact on the revenue budget for this item.

5. Equality and Diversity

- 5.1 Any service amendments proposed as part of the detailed budget process will be subject to equality impact assessments.

6. Sustainability/Climate Change Implications

- 6.1 The Council has made a significant investment into the Green Initiatives Fund and the relevant Councillors and Committees are looking at their cost of services to establish where they can utilise these funds to support green initiatives.

7. Timetable for implementation

7.1 Growth & Savings bids

- 7.2 January 2022 – all Committees review and consider their growth and savings bids and submit list of bids to the Corporate Policy & Resources Committee for final short listing to feed into the final Detailed Budget for 2022-23.
- 7.3 24 February 2022 – Council approve growth and savings bids as part of the 2022/23 annual budget debate.

Background papers: Budget Briefing Presentation 8 November 2021 including

Appendices: Appendix A – MTFS 2022-23 to 2025-26