

24 February 2022



Title	Detailed Revenue Budget for 2022/23
Purpose of the report	To approve the report below based on the recommendation made by Corporate Policy & Resources Committee at their meeting on 7 February 2022.
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	<p>Committee is asked to asked to recommend that Council consider and approves the following:</p> <ol style="list-style-type: none">1. To approve a 2.4% increase on Band D for the Spelthorne Borough Council element of the Council Tax for 2022/23. Moreover:<ol style="list-style-type: none">a. The revenue estimates as set out in Appendix 1 be approved.b. No money, as set out in this report is to be appropriated from General Reserves in support of Spelthorne's local Council tax for 2022/23.c. To agree that the Council Tax base for the year 2022/23 is 40,703 Band D equivalent dwellings calculated in accordance with regulation 3 of the Local Authorities (Calculation of Council tax base) Regulations 1992, as amended, made under Section 35(5) of the Local Government Finance Act 1992.2. Continuing the Council's Local Council Tax Support Scheme with the current rules and regulations.3. Continuing the complete disregard of war pension / armed forces pension income from benefit calculations.4. The growth and savings items as set out in the report's appendices 2 and 3.5. To note the Chief Finance Officer's commentary in section 4 of the report on the robustness of budget estimates and levels of reserves under sections 25 and 26 of the Local Government Act 2003

6. The Council Tax Base for the whole council area for 2021/22. [Item T in the formula in Section 31b (3) of the local government Finance Act 1992, as amended (the “act”)] should be 40,703 band D equivalent dwellings and calculate that the Council Tax requirement for the Council’s own purpose for 2022/23 is £210.05 Per Band D equivalent dwelling.

That the following sums be now calculated by the Council for the year 2022/23 in accordance with Section 31 to 36 of the Local Government Act 1992.

A	119,603,377	Being the aggregate of the amount which the council estimates for the items set out in Section 31A (2) of the Act considering all precepts issued to it by Parish Councils.
B	111,053,652	Being the aggregate of the amount which the Council estimates for the items set out in Section 31A (3) of the Act
C	8,549,725	Being the amount by which the aggregate at (A) above exceeds the aggregate at (B) above, calculated by the Council, in accordance with Section 31A (4) of the Act, as its Council Tax requirement for the year
D	210.05	Being the amount at (C) above divided by the amount at 5c (above),

				calculated by the Council in accordance with Section 31B (1) of the act, as the basic amount of its Council Tax for the year (including Parish precepts)
	E		0	Being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act.
	F		210.05	Being the amount at (D) above less the result given by dividing the amount at (E) above by the amount at 5c (above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings on those parts of its area to which no Parish precept relates.

That the following amounts be calculated for the year 2022/23 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011.

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
140.03	161.37	186.71	210.05	258.73	304.41	350.08	420.10

Reason for Recommendation	To deliver services for its residents the Council has to set a balanced Revenue Budget and determine its council tax levels
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Precepts issued to the Council

	A £	B £	C £	D £	E £	F £	G £	H £
Surrey County Council	1,084.26	1,264.97	1,445.68	1626.39	1,987.81	2,349.23	2,710.65	3,752.78
Surrey Police & Crime Commissioner	197.05	229.89	262.73	295.57	361.25	426.93	492.62	591.14

That, having calculated the aggregate in each case above the Council in accordance with Sections 30 and 36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011, hereby sets the amounts as the amounts of Council tax for the year 2022/23.

The Council has determined that its relevant basic amount of Council Tax for 2022/23 is not excessive in accordance with the principles approved under Section 52ZB Local Government Finance Act 1992.

As the billing authority, the Council has not been notified by a major precepting authority that its relevant basic amount of Council Tax for 2022/23 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK Local Government Finance Act 1992.

1. Key issues

- 1.1 By law Councils are required each year to set a balanced budget.
- 1.2 The 2022/23 revenue budget shows a very positive position in that a balanced budget has been put forward and Council intends to utilise £240,000 of earmarked reserves to fund some off the growth bids received. The use of these reserves fits with the intended purpose the reserves were established for and approved by Council in previous years.
- 1.3 Council is looking to deliver the same range and quality of services to our residents, i.e., there have been no service cuts proposed. The Council has also recommended that our staff on the five lower grades receive an extra 0.5% pay rise in the year, over and above the 2% all staff are proposed to receive and will also continue to make its annual contribution to Capital.
- 1.4 The proposed budget is supported by an increase in the Council's share of Council Tax of 2.4% which is just over half of the current inflation rate of 5.4% (December CPI figures)
- 1.5 Further, to balancing the 2022/23 budget, the Council at an early stage and based provisionally balance its budgets for 2023/24 to 2025/26.
- 1.6 The other main points from the 2022/23 Budget are as follows: -

- (a) Pay Award for all staff 2.0% per annum plus an extra 0.5% for our lower grade staff (1-5).
 - (b) Discretionary Fees and Charges inflation 5.4% increase, in line with inflation, excluding pitch hire charges for children and day centres fees for our elder and vulnerable residents.
 - (c) Contract inflation 1.7%
- 1.7 We are in exceptionally challenging and uncertain times, because of the continued COVID-19 pandemic with its new variants and the impact of Brexit, on our cost of materials, energy and fuel, labour and delivery times, which has made the process of setting the 2022/23 Budget and beyond extremely challenging. We are continuing to see reduction in some of our services, fees and charges income, the amounts of council tax and business rates collected, and we expect to see a small increase in our treasury management income as the Bank of England has recently raised the base rate. The Council is still providing extra expenditure to many of our services, for example, supporting our leisure centres. This is making our ability to predict. Like many of our businesses in the Borough, the Council is having to forecast and plan ahead, trying to predict just when our operating income and services, will return to pre pandemic levels?
- 1.8 In the last 24 months since the pandemic began, the Council has achieved the following:
- (a) 29,629 outbound calls to vulnerable Spelthorne residents
 - (b) Helped leisure centres and community groups.
 - (c) £26.2m paid out to in business and discretionary grants to support our business community and local residents in Spelthorne.
 - (d) 37 Rough sleepers have been placed into settled accommodation
 - (e) 68,153 meals delivered to Spelthorne residents
 - (f) £29.6m paid out in business rates relief to support our local businesses that provide employment opportunities to residents in the Borough.
 - (g) Provided 104 new homes for our residents
 - (h) Supporting our food banks to deliver 934,404 meals throughout the Borough.
- 1.9 Managing the steepest economic downturn, the UK economy has experienced for over 300 years has not been straight forward. The Consumer Price Index (CPI) for November and December 2021, show inflation is running at over 5% per annum and it is against this backdrop, the Council has looked to its short- and medium-term objectives, to set a prudent balanced budget, which aims to maintain our level of services for the residents of the Borough.
- 1.10 As mentioned last year, discussions are still ongoing regarding the possibility of Surrey become a single Unitary Authority in the future, and Spelthorne Borough Council continues to play an active part in these discussions.
- 1.11 Finally, Council is taking the opportunity to put over £3.0m into our revenue reserves. Based upon our modelling, it is likely to be a similar situation next year, as we, hopefully, come out of the pandemic for good, and can return to our planned level of funding based on our 20-year sinking fund modelling. By

building up our revenue reserves pre pandemic, the Council could smooth out challenging years, to reduce the burden on our residents during these difficult times

- 1.12 In presenting this balanced budget, with general reserves as contingency to support our services, we are continuing to show a measured approach in managing the uncertainty surrounding the impact of COVID-19 on our local economy, businesses, and residents.
- 1.13 As a result of extensive modelling, ranging over the short term, i.e., a few years to the long term, i.e., up to 50 years, the Council is still in a very good position with forecasts suggesting that if we put the Budget on a sustainable basis in 2022/23 the Budget will be balanced in the following three years even with additional pressure of financing leisure centre 2022/23 and potentially 2023/24. However, the Council anticipates experiencing budget gaps in 2023/24 and 2024/25 and will be monitoring the medium term closely, as well as identifying service improvements and savings. To be finalised once CP&R have made their recommendations.
- 1.14 Appendix 1 summarises the current draft detailed Budget proposed for 2022/23. After allowing for Housing Benefit the gross budget is financed as follows,
 - (a) Fees and Charges
 - (b) Property Rental Income – Increasingly representing a greater proportion of the overall funding
 - (c) General Revenue Grants, including New Homes Bonus which increased substantially this year & Retained Business Rates
 - (d) Council Tax

Business Rates Retention

- 1.15 The Government because of COVID19 put on pause its Business Rates Retention reform along with its “Fair Funding Review” This work informing this may now conclude in 2022-23 and the changes be implemented in 2023-24. If this is the case, it is now less clear whether the Government will move to “75%” business rates retention due to tensions with levelling up principles. If changes to retention are made along with base line reset in 2-23/24 this could adversely impact in relative terms the Surrey councils and result in a reduction in the amount of business rates, we retain – this would mean our budget gaps could increase for 2023-24 and 2024-25. For 2022-23 Spelthorne will not be in the Surrey Business Rates pool.

Grant Settlement

- 1.16 The Government’s Provisional settlement was announced on 16th December 2021 and confirmed that Spelthorne would continue to receive no general grant support in 2022/23. Disappointingly, despite the Chancellor setting out in November a set of three-year Spending Review parameters, the Settlement only set out details of funding for councils for one year which does not help medium term planning for councils. However, our The New Homes Bonus continues for 2022/23 with our allocation rising by more than £1million to £1.294m. The increase reflects the impacts of housing completion numbers on Brooklands and London Square schemes. Unfortunately, we are

anticipating that as part of the funding review changes expected to take effect in 2023-24 the New Homes Bonus may be ended (apart from small legacy amounts for 23/24 and 24/25 shown in Appendix 1) and it is not clear what funding mechanism if any will replace it. So, one consequence of slippage in our housing delivery schemes is that we may have missed the opportunity to maximise grant support for additional dwelling delivered.

2. Council Tax

- 2.1 Whilst the Government has limited the amount of Council Tax for shire districts and boroughs to either 2% or a rise of £5 on Band D (whichever is the higher). Spelthorne Borough Council has decided to recommend an increase of £5.00 on Band D. County Councils and Unitary Authorities can levy a combined council tax and additional adult social care precept of up to 4.99% which is the increase Surrey County Council is applying. The Surrey Police Commissioner has set at an increase of £10 Band D (3.5% increase)..

Council Tax Support Scheme

- 2.2 The Council will continue the Local Council Tax Support scheme with the same rules and regulations as was agreed for the 2014/15 scheme. This was a 25% deduction made for working age claimants and a 10% deduction for working age claimants who we classified as disabled due to the benefits they receive. This is also considering any annual uprating of applicable amounts or premiums that is announced by central government for the following year.

War Widows

- 2.3 It is sensible to re-confirm the Council's position with respect to the complete disregard of war pension /armed forces pension income from benefit calculations. If the full amount is disregarded the cost of this measure falls on the local authority as only the first £10.00 is disregarded by central government. We have already agreed to do this for our council tax support scheme. We have always disregarded the full amount since the housing benefit scheme came into existence along with practically every other local authority and the cost to the authority in the last subsidy claim was £4,210. We intend to continue to make this disregard for 2022/23

3. Budget Consultation

- 3.1 The Council issued a Budget Consultation in the last few months of the year and we received a good response, with a significant number indicating that the Council should continue to prioritise the provision of affordable housing to its residents.

4. Basis of preparation of the detailed budget

- 4.1 **Service levels** – the budget estimates have been prepared based on maintaining existing service levels except where variations have been approved by the Committee and the Council. Members should be aware of the challenges posed by the COVID-19 global pandemic may impact either favourably or adversely on the Council Revenue budget. Considerable work has been undertaken to estimate the potential impact based on the knowledge gained from three lockdowns over the past ten months. The Council has undertaken considerable work to identify savings and efficiencies to offset the list of growth proposals. This is to ensure a balanced budget not

just for 2022/23 but also to put us in a sustainable position to balance the Budget in 2023/24.

- 4.2 **Pay and price levels** – a 2.00% pay award for all staff and an additional 0.5% for employees on the lowest grades 1 to 5 have been proposed for 2022/23. The Council has made an undertaking to Unison, to reconsider the above, based on final national pay award settlement for 2022/23, should this be higher than the proposed pay awards.

Inflation has been included in respect of contracts at 1.7% where appropriate. Inflation as currently measured by the Consumer Prices Index is 5.4% (as per CPI for December 2021).

Pensions

- 4.3 As we are in the final year of the current triennial period between Pension Fund valuations our employer contribution rates for 2022/23 had already been agreed.
- (a) The primary rate which is the contribution paid on an ongoing basis as employees earn additional entitlement will continue at 17.3% for 2022/23
 - (b) the secondary rate – this is a lump sum which the Council pays as an employer towards closing the deficit relating to past service benefits. As a result of an earlier decision to frontload our first-year payment, the secondary contribution will remain at £1m in 2022/23.
- 4.4 The next Valuation applies as at 31 March 2022 and will impact on employers' contributions for the years 2023/24 to 2025/26. Whilst the Surrey Pension Fund has been performing very well recently which will help restrain employer contribution rates, we have erred on the prudent side and assumed cumulative £0.33m per annum increases in our contribution rates for the period 2023/24 to 2025/26 i.e., by end of that period our contribution rate will have increased by a £1m.

5. Fees & Charges

- 5.1 All fees and charges have been reviewed, see separate report on the agenda.

Income Generation

- 5.2 The Budget forecasts have reflected officers' judgements on the future, taking the past three years income as a guide, whilst being mindful of the exceptional general economic context over the last two years, and despite the economic challenges faced during repeated lockdowns, in aggregate our income generation is recovery but we are still not expecting in 2022-23 some of our income streams such as car parking to fully return to pre-pandemic levels. Although they are not predicting and substantial increases in income, as it remains difficult to predict when income will return to pre pandemic levels if at all..
- 5.3 The net income from our commercial asset's portfolio is budgeted at £10.831m for 2022/23 representing a decrease of 3.1% compared to 2021/22 and represents a movement of £0.35m compared to the last Budget set before the pandemic of 2020/21, with the Council utilising these funds to support, service delivery, regeneration in the Borough and the delivery of much need affordable homes to the residents of the Spelthorne.

- 5.4 **Knowle Green Estates Ltd (KGE)** - Due to delays in completion of the first three properties and the delays in obtaining planning permission to build more affordable housing in the Borough, the financial performance for KGE in respect of each property is on plan, but delayed by several months, which will mean that the council will receive the predicted income, by between twelve to eighteen, in between time, KGE will need some additional short term funding to support cashflow, until the forecast income is achieved once the properties are built. The Policy switch made by Council in January 2020 towards nearly all units being affordable or key worker has resulted in largely the elimination of any interest rate margin which SBC would have earned on financing private rental units. One of the key policy choices for the Corporate Policy and Resources Committee in the coming months will be to determine and agree with KGE an interest margin to apply on affordable rental financing as these will help reduce SBC budget gaps in future years. KGE is recharged for services provided and a small interest rate margin and this has been accounted for in the Council budget. The recharge income is going up in 2022/23 to reflect the need to provide increased tenancy support resourcing to handle the higher levels of affordable housing tenants being managed by KGE.
- 5.5 **Spelthorne Direct Services Ltd. (SDS)** – The company continues to grow despite the pandemic, which has curtailed the sales activity and delayed its development by over twelve months. SDS is recharged for services provided to it by the Council budget, and is only making finance repayments on start-up capital

Contingencies.

- 5.6 The General Fund reserve exists as a source of contingency funds should a need arise, which can be addressed through offsetting savings and over the next few years, we are looking to increase this to £2.2m

Interest Rates

- 5.7 The Council at present has benefited from many years of above average investment returns through a diversified range of pooled investment funds. The return on these funds is 3.36% as at 31 December 2021 which is a very good rate of return when compared to base rate of 0.1% for the last few years.
- 5.8 In December 2021 and February 2022, the Bank of England raised the base rate to 0.5%.
- 5.9 Returns on maturing cash deposits are currently within the range of 0.67% to 0.73% and the average overall return on investments is expected to be around 1.66%. Base rates have risen for the second time in February 2022 and may be pushed up further by the Bank of England which may improve short term rates of return for the Council but equally push up short-term borrowing rates. Currently Public Works Loans Board borrowing rates in historic terms are still very low (sub two percent for fifty years) and linked to the 20 years gilt market, which is not influenced by the same factors as the Bank of England base rate and is therefore less volatile.

6. Investment Income

- 6.1 The Council has separately received the Treasury Management Strategy for 2022/23 indicating the current position in respect of interest rates and the

proposed strategy for dealing with the lower levels of interest rates and the reduction of investment monies.

- 6.2 Arlingclose advises the Council on expected rate changes which would affect investments and full details are shown in the Treasury Management Strategy Report.
- 6.3 The Council is receiving separately on this agenda the Capital Strategy, which is based on feedback received from Corporate Policy and Resources Committee, and it sets out the Council's broader approach to management of capital expenditure and risk mitigation with respect to financial and non-financial investment assets. The Treasury Management Strategy, Capital Strategy and the Capital Programme reports set out the Prudential Indicators including the proposed borrowing limits in accordance with the Chartered Institute of Public Finance's Prudential Code.

Use of Reserves

- 6.4 The Corporate Policy & Resources Committee reviewed its reserves levels and the purposes for which it holds reserves in the Reserves Policy which was last approved by Council in 2021. It is proposing that the Council approve the use of £240,000 to support revenue expenditure, and £150,000 our capital programme, from reserves set up and approved by Council for use of these funds.
- 6.5 The proposed use of the funds is as follows: £150,000 from the Bronzefield Earmarked Reserve to fund the public realm enhances to the walkway along the river Ash; as well as £101,000 from the Business Rates Equalisation Reserve to fund two temporary posts in the Economic Development Team, £80,000 from the environmental Impact Reserve to fund 3 roles; £30,000 from the Planning Performance Agreement Reserves to assist with the recruitment of an officer in the planning development team and £30,000 from the Green Initiatives Fund to recruit and retain a climate change officer. (Please refer to the appendices below for more details).

Due to the Council's 20-year strategy on our sinking funds which included taking a prudent approach to put part of the monies received from our investment property portfolio money into our reserves, Spelthorne Borough Council will not need to draw on its long-term reserves to fund any short-term gaps in funding, in order to deliver a balanced budget for our residents. The strength of the Council's financial position by the relatively small Budget gaps of approx. £1m per annum for years 2023/24 to 2025/26 despite additional pay and pension pressure and the need to fund an estimated financing balance of £750k per annum for the new Leisure Centre. Our reserves will continue to increase in line with our strategy.

Not only has the investment income portfolio provided for our long-term future prosperity it has enabled the Council to provide a revenue contribution to help finance the capital programme, regenerate the Borough and continue to provide essential services and support to our residents. The Council will be adding a further net £3.0m into its sinking funds during 2022/23 and our anticipated reserves at 31 March 2023 is forecast to be £31m.

Growth items

- 6.6 All service committees have reviewed the growth bids relating to their services and the proposed Budget reflects the bids which have been

supported by those Committees and fed into this Committee. Following submissions from service committees a further process of prioritisation was undertaken which is reflected in the proposed Budget.

6.7 The evaluation of growth bids received from services have been carried out using several criteria including: -

- (a) Whether there is an invest to generate future income aspect
- (b) Whether there is an invest to achieve future savings
- (c) Whether it is necessary to meet statutory obligations
- (d) Whether it is necessary for operational reasons, for example service resilience

6.8 There are a number of areas of new or increased expenditure items included in the 2022/23 budget and some of these are highlighted below:

- (a) Additional staffing resources / recruitment & retention and shown below is our current actual FTE position by cost of services at 31 December 2021 and for the previous four years.

Department	2018	2019	2020	2021	2021 (As at 31 Dec 21)
Building Control	5.93	5.93	6.3	6.23	6.23
Audit Services	1.56	1.75	1.75	1.75	1.75
Accountancy	8.62	10.41	12.46	12.46	11.18
Commissioning & Transformation	23.69	26.26	27.27	30.68	31.02
Community Wellbeing	69.39	71.61	78.88	77.01	79.11
Customer Relations	18.62	23.75	24.22	24.23	21.75
Environmental Health	19.57	21.6	22.38	22.39	23.39
Family Support Programme	8.95	10.95	10.77	10.78	11.67
Neighbourhood Services	135.9	130.95	139.02	133.56	133.79
Regeneration & Growth	36.85	39.81	38.75	43.26	53.29
Secretariat	3	3	3	3	2
MAT	3	3	3	3	3
Communications	4.78	4.06	4.66	4.69	5.69
Legal	8.46	10.06	11.05	13.06	13.66
Elections	2.58	3	3.88	3.89	3.89
Total FTE	350.9	366.14	387.39	389.99	401.42

- (b) Additional costs of service provision

6.9 Shown in appendix 7 is a comparison between the actual FTE posts filled and the increased budgeted approved FTE for the following year, from 2017/18 to 2022/23.

Savings & Additional Income

6.10 In total savings/additional income of approximately £183k has initially been found. Following submissions from the Committees an additional £160,000 of savings were found.

- 6.11 The salary vacancy/turnover assumption for 2022/23 will remain the same as last year at £300k.

Precepts

- 6.12 Surrey County Council at its meeting on 9 February set a Band D council tax of £1626.39 representing a 4.99% increase and Surrey Police at its tax setting meeting on the 7 February set a band D council tax of £295.57 representing a £10 increase on Band D (3.5% increase). See appendix 6 for full details.

7. Options analysis and proposal

- 7.1 The Council is required to set a balanced budget and in the light of the detailed budget it is recommended the Council increases its share of Council Tax for 2022/23 by 2.4%. The Council is very aware of the financial pressures many of its residents are currently under because of the impacts of COVID-19, however this increase equates to less than half the current inflation level and is necessary to protect the Council's tax base and its ability to balance its Budget and provide services for its residents.

8. Financial implications

- 8.1 Addressed in the body of the report.

9. Other considerations

- 9.1 The Local Government Act 2003 (the 2003 Act) section 25 requires that when a council is agreeing its annual Budget the Chief Finance Officer (section 151 Officer) must report to it on the following matters:

- (a) The robustness of the estimates underpinning the Budget
- (b) The adequacy of the proposed reserves' levels

- 9.2 In the exceptionally challenging times, all councils are currently facing because of the impacts of the COVID19 pandemic it is even more important than even to ensure that the Council pursues a careful and prudent approach to setting its budget and considering budget risk. It is uncertain when the country will emerge from the pandemic lockdown, what the impact on the local economy of the national furlough scheme ending in April 2021 or how long the Council's service fees & charges income levels will take to recover. Equally the Council needs to evaluate and manage risks facing its commercial and retail income streams.

- 9.3 There are a range of other legislative measures in Local Government Acts which are in place to ensure local authorities do not over-commit themselves financially. These include:

- (a) The Chief Finance Officer's section 114 power and duty, which requires a report to all members of the Council if there is, or likely to be, unlawful expenditure or an unbalanced budget.
- (b) The Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which guides local authorities on the affordability of their capital programme.

- 9.4 The 2003 Act requires Members to have regard to this report in making their decisions. The 2003 Act does not provide any specific guidance on how to evaluate the robustness of the estimates. However, it does identify the need to allow for risks and uncertainties that might lead to expenditure exceeding budget by:

- (a) Making prudent allowance in the estimates for inflation, known cost increases or reductions in income and in addition
 - (b) Ensuring that there are adequate reserves to draw on if the estimates are insufficient.
- 9.5 It is stressed that the advice contained in this report on the appropriate level of reserves is not based on a percentage of spend, but on an assessment of all the circumstances likely to affect the Council. Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) states the following factors should be considered by the section 151 officer in undertaking an assessment on the overall level of reserves and balances:
- (a) Assumptions regarding inflation
 - (b) Treatment of demand led pressures
 - (c) Treatment of savings
 - (d) Risks inherent in new partnerships etc.
 - (e) Financial standing of the authority (i.e., level of borrowing, debt outstanding etc)
 - (f) The Authority's track record in budget management
 - (g) The Authority's capacity to manage in year budget pressures
 - (h) The Authority's virements and year end procedures in relation to under and overspends
 - (i) Estimates of the level and timing of capital receipts.
- 9.6 The Council's Section 151 Officer has considered and followed those guidelines. The Council is obliged to take these views into consideration when setting the Council Tax and budget for 2022/23.
- In coming to a view on the adequacy of reserves it is necessary to take several issues into account including:
- (a) The purpose for which the Council holds a specific reserve and general fund working balance
 - (b) The risks and uncertainties the Council faces that may have financial consequences
 - (c) The likelihood of those risks arising
- 9.7 The above issues, along with the Reserves Policy were considered as part of the Outline Budget report which went to Corporate Policy & Resources Committee in February 2022, and which reviewed projected balances on reserves. The Council's Revenue Reserve, which acts as a contingency reserve is currently £2.2m which represents 25.9% of the proposed net budget for 2022/23. In the last few years, the Council has ceased to use revenue reserves to support balancing the Budget, this reflects the more sustainable basis the Budget is now on.
- 9.8 Reserves and provisions – the local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of the council's financial reserves when consideration is given to the general fund budget requirement for the year. Under the local government finance act 1988, all useable revenue balances held by the Council are at the direct disposal of the general fund

apart from the Collection Fund and the investment reserve. However, an all of Spelthorne Borough Council's reserves have been approved by council as earmarked and can only be used for the intend purpose approved.

- 9.9 The Chief Finance Officer considers that the reserves and provisions will ensure that the Council maintains a healthy financial position even in the face of COVID-19. In forming this judgement, he has had regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Resilience Index results for the Council which show a strong overall positive picture particularly with respect to reserves levels with 6 of the 8 indicator measures towards the lowest end of risk. Whilst we are currently awaiting the publication of the latest CIPFA indicators we anticipate that they will continue to show that the Council's indicators for reserve levels and reserve movements are at the lower end of risk. This reflects the additional amounts the Council has been putting into its sinking funds. As commented in the Reserves Policy a recent national benchmarking exercise by LG Improve identified that Spelthorne has the highest ratio of unallocated revenue reserves to net revenue budget of any district or borough council in the country.
- 9.10 In response to the impact of COVID-19 and the biggest economic downturn for more than three hundred years, the Council carefully reviewed the adequacy of its sinking funds reserves designed to be able to absorb potential drops in its commercial income stream. The Council produced revised sinking funds projections for the next years on both an expected case and worst-case basis. To date the worst-case modelling suggests that the reserves levels are more than adequate for the next ten years. Whilst our models are set up on a fifty-year basis, we are undertaking weekly review of the projections for the next 10 years and we are now extending that projection period to 20 years.
- 9.11 Additional confidence can also be taken from the fact that despite the impacts of COVID-19 for the last two financial years, the Council collected more than 99.6% of the commercial rent due to it for 2020/21 and is currently collecting approximately 99,6% of rent due. This is a very robust collection performance and reflects the quality of its assets, their location, the financial health of its tenants and the quality of its assets team. For the investment assets portfolio there is currently an overall occupancy rate of approximately 95%.
- 9.12 The CIPFA Financial Resilience has three measures for which the Council is shown as being at the higher end of risk. These are
- (a) Gross Debt to revenue budget – this reflects that the Council has more than £1 billion in debt (although we do not have the highest level of debt in our comparator group). What also needs to be considered is that the Council has nearly £1 billion of best-in-class assets backing this debt. It is recognised that in line with property assets across the economy our asset valuations have reduced (5% for 2020/21) however, with the income levels and occupancy levels holding up strongly we believe these are temporary balance sheet movements and that the values will recover over time. Through the Council's sinking fund strategy, it is seeking to ensure it appropriately maintains the assets. The debt is being paid down on an annual prudent basis. and the borrowing has been fixed at low rates of interest. There is no risk of interest movement on the debt.

- (b) Interest to revenue - this reflects the level of debt highlighted above, What the CIPFA indicator does not reflect is that the rental income generated by the commercial assets is more than 2.2 times in value the interest cost and is sufficient to cover interest, annual debt repayments, management costs and to make annual sinking fund contributions.
- (c) The Index flags that due to the Council currently doing well in terms of the amount of Business Rates it retains above the Baseline set by Government that there is a risk when the Government resets the baseline in 2023/24 as part of implementing 75% Business Rates retention nationally, that the Council is at risk of losing rates when the change happens.

9.13 The Chief Finance Officer is satisfied that each service budget has been prepared in the context of the Council’s corporate strategies, including the Capital Strategy and longer-term financial strategy which means that the Council is presented with robust estimates as a basis for making decisions about the level of council tax. Officers have a modelled a range of scenarios including different assumptions around future pay settlements, and rate at which business rates may be withdrawn from the Council by Government. The nature and size of our revenue budget carries a degree of risk, this is particularly the case in the current COVID-19 crisis.

9.14 Reserves and provisions – the local Government Act 2003 section 26 requires me to report on the adequacy of the council’s financial reserves when consideration is given to the general fund budget requirement for the year. Independent benchmarking by LGImprove indicates that Spelthorne has the highest ratio of Revenue Reserves to net Revenue Budget of any district or borough council in the country. Under the local government finance act 1988, all revenue balances held by the council are at the direct disposal of the general fund except for the Collection Fund. However, a number of these balances are earmarked specifically for social housing and the new scheme fund. Detail any other considerations to be considered.

10. Issues considered when evaluating the robustness of the estimates and the adequacy of the reserves is set out below

10.1 The budget has several risks, and these are set out below:

Outside control	Internally based
Economic and financial impacts of COVID-19 including on residents' ability to pay council tax, businesses ability to pay business rates, council income levels, levels of local council tax support, impacts on commercial rents etc	Failure to maintain momentum in moving towards full occupancy across the Investment Asset portfolio
Interest rates	Failure to sufficiently resource delivery of key asset income generation projects
Severe public sector spending cuts	Collection of retained business rates and council tax
Volatility of BREXIT on level of economic activity including business rates income and tenant's occupancy in commercial assets, as well as shortages	Reliance on interest earnings to balance the budget

of labour and materials, leading to longer lead times and delays completing our development projects.	
Changes to redistribution of Local Government Funding	Slippage of Council's housing delivery programme
Impact of budget pressures on Surrey County Council and other public sector entities.	
Fair Funding review and business rates reset in 2023/24 reduces the amount of business rates income the Council is able to retain	
An increase in the level of voids at our investment properties, followed by a significant number of new tenants entering into new leases, will see income reduce and costs increase before our revenue streams return to business as usual.	
Inflation rates do not fall back but instead become embedded adding to our cost pressures on housing delivery and cost of services.	
Housing benefit subsidy/welfare reform.	

The risks are that the level of savings anticipated do not materialise or that there are additional spending pressures. These will be mitigated by ensuring proposals have been properly evaluated before being built into the final budget for example clarifying any contractual assumptions, and thereafter through careful budget monitoring.

11. Equality and Diversity

11.1 The detailed budget proposals apply to all residents across the Borough.

12. Sustainability/Climate Change Implications

12.1 The Budget reflects prioritisation against corporate priorities including climate change. Provision has been for example to create a new climate change officer.

13. Timetable for implementation

13.1 Full council to approve the budget on 24 February 2022.

Background papers: There are none.

Appendices:

Appendix 1 – Detailed revenue budget for 2022/23

Appendix 2 – Net Expenditure budget for 2022/23 by Committee

Appendix 3 – General Fund subjective Analysis for 2022/23

Appendix 4 – Calculation of the basic Council Tax for 2022/23

Appendix 5 – Calculation of Council Tax (SBC only) for different valuation bands 2022/23 .

Appendix 6 – Summary calculation of the total Council Tax (SBC, SCC and SPCC) for different valuation bands for 2022/23

Appendix 7 – Comparison for the five years ended 2022/23 between actual and budgeted FTEs showing the year on year movement between the two by cost centre.

Appendix 8 – FTE equivalent support provided by SBC to KGE and fully charged to KGE.