

## Corporate Policy & Resources Committee

29 November 2022

<b>Title</b>	<b>Outline Budget Report 2023-24 to 2026-27</b>
<b>Purpose of the report</b>	To make a decision
<b>Report Author</b>	<i>Paul Taylor Chief Accountant</i>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<p><b>Committee is asked to:</b></p> <p><i>To note the current projected Budget gaps set out in 1.21.</i></p> <p><i>To recommend that the Council uses its Reserves to deliver a balanced budget for 2023/24 and noting that there is some headroom to protect front line services and vulnerable residents, either in 2023/24 or future years.</i></p> <p><i>To confirm support for the initiatives suggested in section 1.7 to 1.19, which will allow Officers to work on closing the gaps for the years 2024-25 to 2026-27.</i></p>
<b>Reason for Recommendation</b>	<i>Councils have a statutory duty to balance their budgets. It is important that we take a medium-term approach in ensuring that we can take action sufficiently early to ensure the Revenue Budget remains financially sustainable.</i>

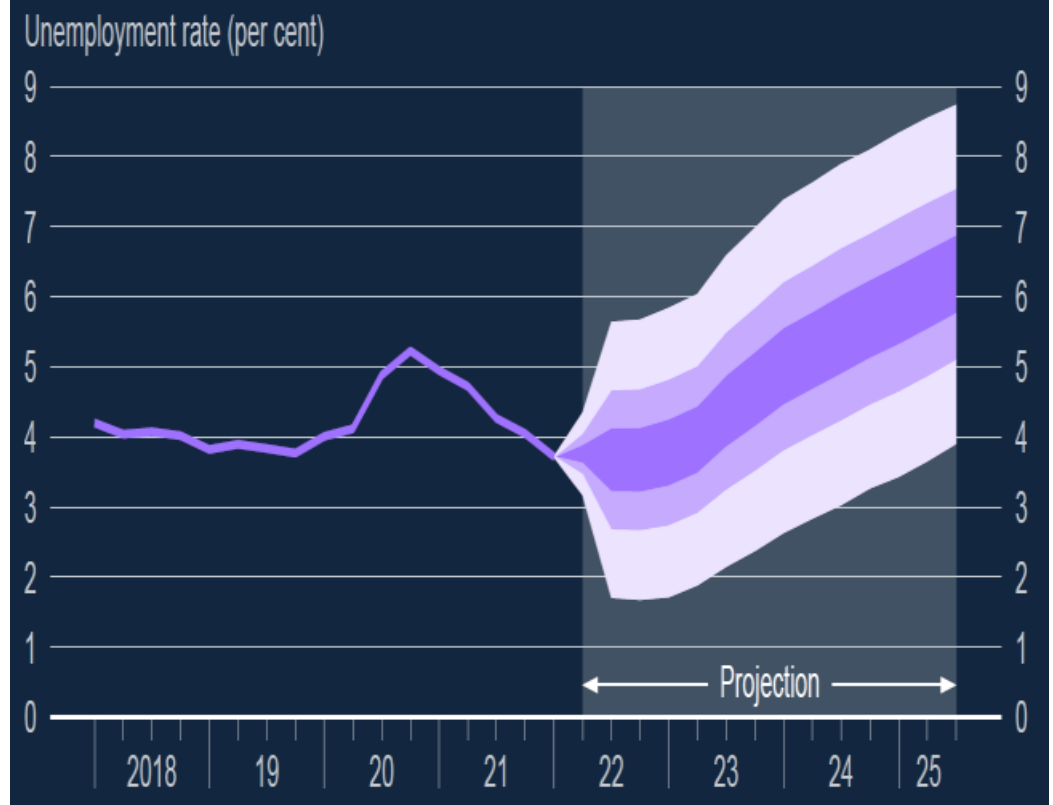
### 1. Summary of the report

- 1.1 Having emerged from one of the worst economic downturns in over 350 years, caused by COVID-19, the Council and the Borough will be coming to terms with the impact of the Pandemic for several years to come, with many issues from the last 30 months remaining unresolved for a few years to come.
- 1.2 Unfortunately, global events over the last twelve months, including the Russian invasion of Ukraine, Brexit and more recently the ongoing cost of living crisis present major ramifications for the Borough exacerbated by these global factors, and is likely to have a more significant impact on the Council's finances in years to come, than the global COVID-19 pandemic. For the

Council's budget position, the inflationary pressures associated with supply side issues of coming out of the pandemic and then the cost of living crisis are having a particularly significant impact on the Council's budget position over the Outline Budget period.

- 1.3 The existing issues mentioned below, are now further exacerbated by what has been labelled the cost-of-living crisis.
- 1.4 This means that the Council must have regard to these issues from a post COVID-19 recovery perspective and pending recessionary influences that will curtail recovery, increase costs, reduce income and therefore, where possible strong strategic policies to deal with these issues, must be implemented.
- 1.5 The vast range of issues to be considered include:
  - (a) The extent to which services' income such as car parking charges return to pre-pandemic levels, considering we are seeing changes to people's behaviour, for example, increased home working and online shopping. Have they permanently changed and do they impact on the time any recovery may take?
  - (b) What will the impact be on our local economy in terms of jobs? Will the green shoots of a post pandemic recovery, as seen with the recent rise in recruitment numbers at Heathrow Airport, be slowed down or will the growth prospects for the Borough be reversed.
  - (c) ArlingClose, the Council's Treasury Management Advisors provided the Bank of England's unemployment projections that forecast a sharp rise in unemployment over the next three years, as shown in the table below.

## Unemployment rate projection (a) (b) (h) (i)



- (d) The labour market tightens further into 2023 from continued elevated recruitment difficulties due to the fall in size of the labour force before the slowdown in demand leads to a rise in unemployment and excess supply over the rest of the projection
- (e) Whilst the furlough scheme assisted residents to pay their bills as and when they fell due, during the pandemic, given the cost of living crisis, particularly around food, electricity and gas prices, the Council should be prepared to see a reduction in council tax collection rates and increased demand for some services such as Housing Benefits or Housing Options. This will create a dual challenge of reduced revenues and increased costs, as residents struggle to balance their budgets and pay their bills on time.
- (f) Officers are not proposing any amendments to the current level of localised council tax support for our residents struggling to pay council tax.
- (g) Officers believe that the Council may see a rise in numbers of residents presenting themselves for Housing Options support, particularly with the ending of the national moratorium on landlords' evictions.
- (h) The projected Council delays in developing our residential property schemes, continue to adversely impact on the Council's finances. The Council is currently incurring £170k per month in both revenue and capital costs, and following the recent Bank of England

Monetary Policy decision to increase the current Bank Base rate to 3%, Officers are forecasting that this will rise to £200k a month from January 2023. It could rise further still in April 2023 to £250k (£3m per annum), as the Council replaces short term (six to twelve months) borrowing agreed in December 2021 when the previous loans at rates agreed up to 12 months ago, when the base rate was 0.1%. **It is therefore particularly important that the Council maintains momentum in its affordable housing residential delivery programme and advances schemes through Planning.**

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 £1.6m per annum capital costs being written off to revenue costs. This is the equivalent of running our day centres for over three years and would greatly increase the Revenue Budget gap to be closed.

- (i) During the Pandemic, Officers assumed that the council tax collection rates for the previous years would be 97% and managed to achieve an improved performance of 98.5%, which as mentioned above, was greatly assisted by the furlough scheme. However, as the Country heads towards recession, based on the Bank of England and Office for Budget Responsibilities and erring on the prudent side it is recommended that the Council should adopt a 97% collection rate for 2023/24.
- (j) As the Council saw in 2022/23, despite extensive lobbying, officers are not anticipating that the Council will receive any significant additional Government financial support In 2023-24 for the challenges faced with income recovery. The Department for Levelling Up and Housing, which is the central Government department responsible for local government faces the steepest real terms funding reduction of any Government department. Within local government resources will be directed towards upper tier councils with adult care responsibilities, presenting a significant financial challenge for lower tier councils in sustainably delivering services.
- (k) Refreshing the Council's annual Reserves Strategy and consideration of 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 2021-22 the Council has £55m in cash backed reserves and whilst a significant proportion of them are earmarked for specific purposes, some could be applied to offset the budget deficits, including the Cost-of-Living crisis reserve amounting to £362k.

Following the Council meeting on 20 October, Officers have reviewed the earmarked reserves and advised Council that there is an additional £200k available to support key front-line services during the cost of living crisis.

- (l) The funds flow from Knowle Green Estates Ltd. (KGE) to the Council has been delayed, as the proposed development at Thameside, Oast House, Victory Place, Ashford Multi Story Car Park, Benwell phase 2 have been delayed.

Further, the reduction from 666 apartments to 564 apartments due to the proposed height reductions, has reduced the potential income available to Spelthorne Borough council by in excess of £90m, over the next 50 years. This is offset by savings in costs of approximately £23m, over the same period

The recent interest rate movements, which will be touched on further in the report, is forecast to have an adverse impact of over £91m in the next 50 years.

When combined with the additional £33m of costs to construct these developments, KGE is struggling to make these new development viable and proposals will be presented to the Council for consideration at their Extraordinary Council Meeting in January 2023.

### **Pay Awards**

- i) **2022/23**

The local Unison branch originally formally asked for a 4% pay increase for staff but accepted the Council offer of 2.5% for the lowest five grades and 2% for all other staff. Despite the national employers settling for an agreement for 2022-23 which is more generous (a fixed some of £1,925 per FTE equivalent to an average of 3.7% on Spelthorne grade) local Unison branch have confirmed that they do not expect a further uplift in 2022/23 to bring us in to line with the national settlement.

The 1.25% increase in national insurance employer's contributions which came into effect during 2022/23 (estimated cost to Spelthorne £181k) has been dropped. However, we will cease to receive the Other Services grant (£133k) from 2023-24 which was designed to partially offset. The combined effect will be that we will be just under £50k better off as an employer.

### **2023/24**

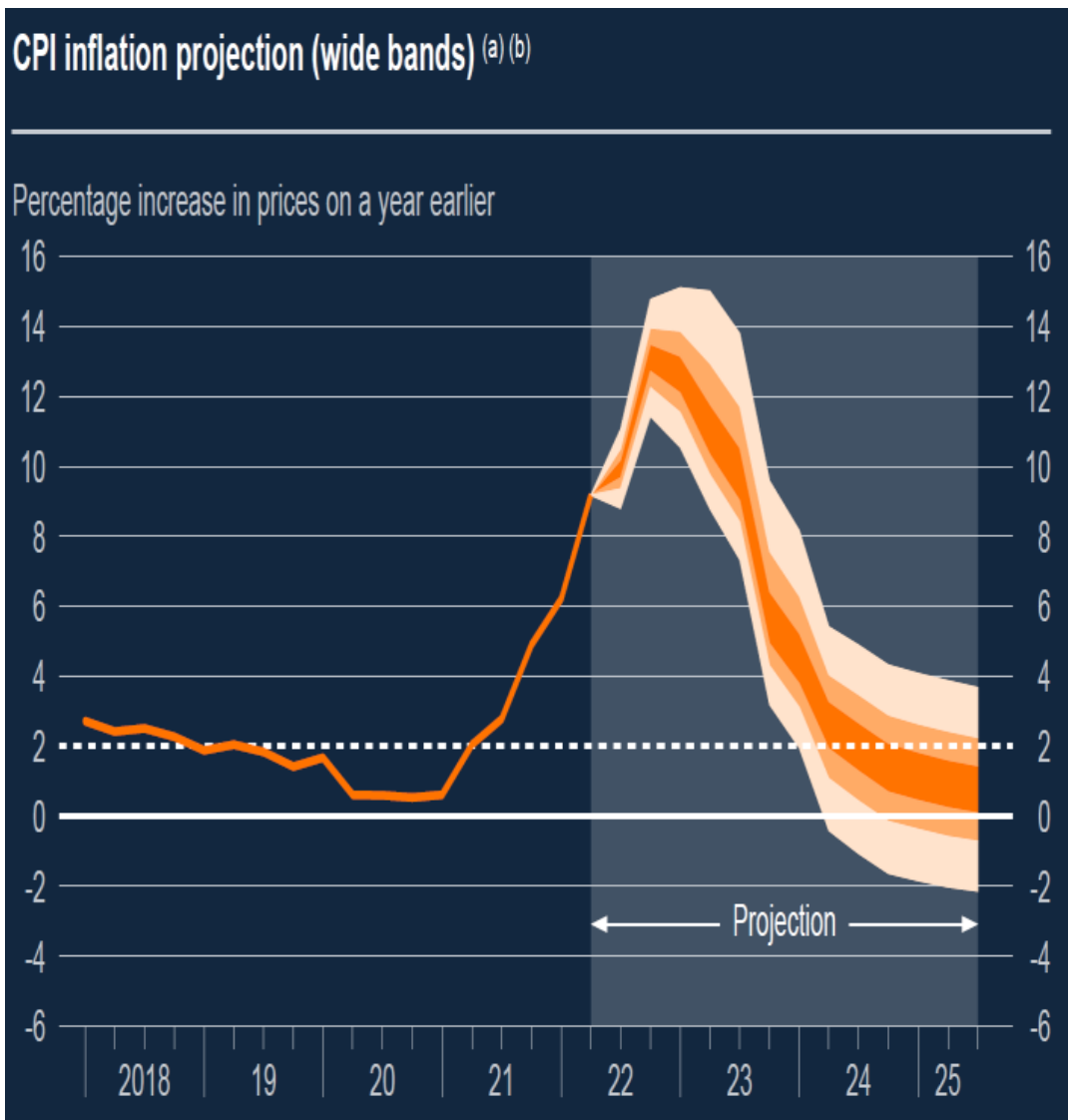
The local Unison branch have formally requested that the pay award be restricted so that each FTE received the equivalent of £1,925 per annum, which equates to an average aggregate pay award of 3.54%, across the Council.

By structuring the pay award in this manor, the percentage increase is approximately 10% for the lower grade members of staff and just under 2% for our highest-grade members of staff.

- (m) **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 due to the increased number of FTEs joining the scheme, this has impacted on the employer pensions contributions for the period 2023-24 to 2025-26. The Outline Budget projections has reflected the £500k increase in

employer contributions for 20223-24(previously £333k per annum), together with the incremental increases for the following three years.

- (n) **New Spelthorne Leisure Centre** – Again, this has been subject to increased inflationary build costs and once it is constructed is unlikely to fully cover its cost\’s once it becomes operational in 2024. This has been reflected in the Outline Budget projections.
- (o) **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
- (p) **Inflation** – The rapid rise in inflation over the last fourteen months has had a significant impact on the Council’s finances, and as can be seen the Bank of England are forecasting a sharp rise ahead, through to mid-year 2023 and then it is anticipated inflation will fall, which is borne out by the Medium Term Financial Strategy in section 1.18 below.
- (q) The vast majority of the increase and subsequent fall in CPI inflation reflects the impact of external factors domestic price pressures rise further this year, as wage growth strengthens, and companies increase their selling prices reflecting their sharp rises in costs Inflationary pressures subside in the second half of the forecast period, as the increasing degree of economic slack and lower headline inflation also reduce the pressure on wage growth



(r) The above list is not exhaustive.

## 1.6 Opportunities

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

1.7 **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 include:

- (a) Counter Fraud – with Reigate & Banstead Council
- (b) Spelthorne Personal Alarm Network – with Mole Valley District Council
- (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.

Following the recent change of S151 Officer at Mole Valley District Council Officers have recommenced discussions about combining the Finance Teams of the two Councils, to improve resilience, aid recruitment and deliver

efficiencies, particularly around Integra. Other services could also be combined, and Officers are considering this as part of a wider project.

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.

- 1.8 **Investment Properties** – there have been a number of unplanned external challenges that have recently impacted on the Council's income streams, namely the war in Ukraine and the UK Government's decision to freeze all the UK assets of Russian nationals, which has resulted in the Council taking action to foreclose on a lease, and as the property will be empty, to take the opportunity to improve the infrastructure within the building to attract a new tenant. The refurbishment costs and the void period will see income from this property fall by just over £4m.

Following extensive negotiations with an existing tenant, at another property, they have finally decided to terminate their lease in December 2022 and whilst there is an option to relet some or all of these units, which will be shortly discussed by Council. Once a decision is known, Officers will reflect that in an updated MTFS forecast.

Until then, Officers are exercising caution and taking a worst case scenario for reduced rental income and landlord costs.

Officers were aware of both of these situations and the likely adverse impact on cash flow in 2021/22 and recommended that Council, invest an additional £2.5m in the sinking fund to contribute towards the short fall of the above.

It is also clear that for 2023/24 and 2024/25, based on the worst case scenario, the Council will have to fall back on its sinking fund reserves, due to these unplanned situations, which was why they were established in the first place.

The recent sinking fund review modelled the likely impact on future cashflows and are forecasting that over the next 45 years, the Council will invest a net £3.5m per annum into the Council's sinking fund to cover unplanned emergencies, such as, warfare, together with providing sufficient fund to ensure that the Council still receives a £10m contribution towards front line service delivery, affordable housing and regeneration programmes.

The modelling indicates that in 45 years time the aggregate sinking fund balance will be in excess of £200m, with the vast majority of loans for investment assets almost paid off.

- 1.9 **Invest to save** – are there any opportunities for Committees and officers to invest in 2023/24 to deliver savings in subsequent years, and MAT has requested that based on the success of home working during the pandemic, the Council looks to replace the dummy terminals at the office and supply everyone with a laptop.

There are several other initiatives that fall under the invest to save category that Officers will be looking to deliver cashable savings of £200k per heading over the next 4 years.

1. Procurement savings



2. Cost savings
3. Business Improvement
4. Green Initiatives.

On the basis that each area delivers the cashable savings expected that equates to £800k, over four years.

- 1.10 **Digital Transformation** - The Council has a digital transformation programme and has recently appointed a digital transformation programme manager. The Council 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 and quantify the cashable savings for 2023/24 and beyond.
- 1.11 **Knowle Green Offices** - Explore how the Council can maximise the opportunities created by the hybrid working era and reduce the overall running costs for the current office.
- 1.12 **New Corporate Plan** – this will be a key priority for the Council to evolve, post the May elections, the current Corporate Plan to ensure that all cost of services are aligned to deliver the strategy established by Council.
- 1.13 **Centros** – following a smooth transition from Integra our previous Enterprise Resource Planning financial system to Centros in August the Council is beginning to see some of the opportunities materialise, including:
  - (a) **Budget setting process** – the data is already loaded into Centros and a variety of data sets have been made available to enable Officers to model different scenarios. Based on this approach, once Council agree the final budget in February 2023, the Finance Team will be able to produce all the relevant reports and update the system by the first week of March, saving at least three weeks in the process.
  - (b) **Business intelligence dashboards** – is an information management tool that analyses information and displays it graphically, which will also assist with data used in Council reports in conveying important messages.
  - (c) **Application Programme Interface** – enabling us to open our data for the development of apps for our services, Officers are already looking to see how we can establish interfaces with the Assets team to model sinking funds.
  - (d) **Mapping** – by introducing ‘maps’ for our standard internal external reports, once established, this will reduce the time taken to collate the report by over 95% in respect of Officer time.
- 1.14 **Empty property premia** – Following last year’s Council decision, Officers will be submitting a claim to Surrey County Council (SCC) to make use of their offer to spend their share of this income of related project in our Borough.
- 1.15 **Affordable Housing Delivery**- as stated above it remains particularly important that the Council maintains momentum of its affordable and keyworker programme otherwise it faces abortive costs which will significantly increase

its Revenue Budget gaps. The Council therefore needs to continue to advance its schemes through the Planning process.

- 1.16 International Financial Reporting Standard 16 – Accounting for leases – the Council formally adopted this standard from 1 April 2022, as previously mentioned by Officers, where the Council has a right to use each asset costing over £10k, the Council must capitalise the cost of the asset in its balance sheet and depreciate it over its useful economic life, this will impact on the Estimate Capital Programme, rather than treat the lease payments, as rentals which are then charged to the relevant cost centre. The interest and maintenance element of such an agreement, will continue to be charged to the cost centre. This has no impact on cashflow. Officers estimate that this will save £472k over the two years 2022/23 and 2023/24.

1.17 **Current initiatives**

- 1.18 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:

- 1.19 **An average 2.5% and 5% savings** – In the 2024/25 Budget Setting process, which will begin in June 2023, Group Heads will be asked to review their service plans and identify opportunities for achieving these two levels of savings, to assist with the projected deficits for 2024/25, 2025/26 and 2026/27, noting that some contracts have a few years to run and inflation increases already built in, as highlighted in the next section.

1.20 **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, as mentioned above, some of which have yet to be fully felt. The Council also needs to understand the full impact of the cost of living crisis as it unfolds, and take action, as it has done so, with utilising the Cost of Living and supplementary reserves amounting to £564k. It also 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 Council's 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.

- 1.21 Considering the above Officers are predicting that the (surplus) or deficit for the four years ended 31 March 2027 will be as follows, as shown in Appendix A:

	2023/4	2024-25	2025-26	2026/27
	£000's	£000's	£000's	£000's
Opening budget (surplus)/deficit	0	-859	2,776	5,057
In year movements (favourable)/adverse	-859	3,635	2,282	1,017
Closing budget (surplus)/deficit	-859	2,776	5,057	6,075

Whilst we are currently projecting a surplus of **-£859k** for 2023/24, the Council is facing significant Budget gaps in the subsequent 3 years. The latter gaps are due to a combination of inflation pressures, projected impact of Fair Funding Review and Business Rates reset and in 2026/27 further potential increase in employers' pension rates

## 2. Financial announcements and implications

- 2.1 **Council Tax** – In the Autumn Statement, the Chancellor announced that for 2023/24 and 2024/25, lower tier councils can increase their council tax bills by 3%- In comparison the maximum for 2021-22 for Spelthorne was £5 or 2.4% i.e. currently we have an additional 0.6% or £53k headroom. For Spelthorne £5 on Band D equates to 2.4% for 2023/24, to 3%, which equates to £6.30 and £6.49 for 2023/24 and 2024/25 respectively. In comparison upper tier councils such as Surrey County Council will be able to increase by 3% plus a further 2% for adult social care.
- 2.2 This would yield an additional aggregate council tax revenue of £52,716 and £61,330 for 2023/24 and 2024/25 respectively
- 2.3 **Provisional Local Government Finance Settlement (PLGFS)** – this is expected to be announced on 21 December, which is very close to Christmas, this is possibly the latest we have ever received settlement details. We are expecting a “roll over” settlement i.e. do not expect any significant funding methodology changes. It is anticipated that the Fair Funding Review and Business Rates will slip to at least 2025/26- in the outline Budget projections we have assumed a reduction of a third in the amount of business rates we retain from 2025-26 and the disappearance of New Homes Bonus at the same time. This is a factor as to why the last two years in the outline budget period are particularly challenging.
- 2.4 **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.
- 2.5 **From 1<sup>st</sup> April 2023**, across England rateable values have been revalued. The Government will allow reductions to feed through immediately but has a transitional relief scheme to assist those ratepayers whose values and

therefore bills are rising. We are working through analysis to understand the impact on the Council's own properties.

The Government has announced an extension of the 50% discount on business rates for retail, leisure, and hospitality sectors with it providing 75% relief for 2023/24. This is clearly a response to the pressure's businesses are now facing in light of the cost of living crisis.

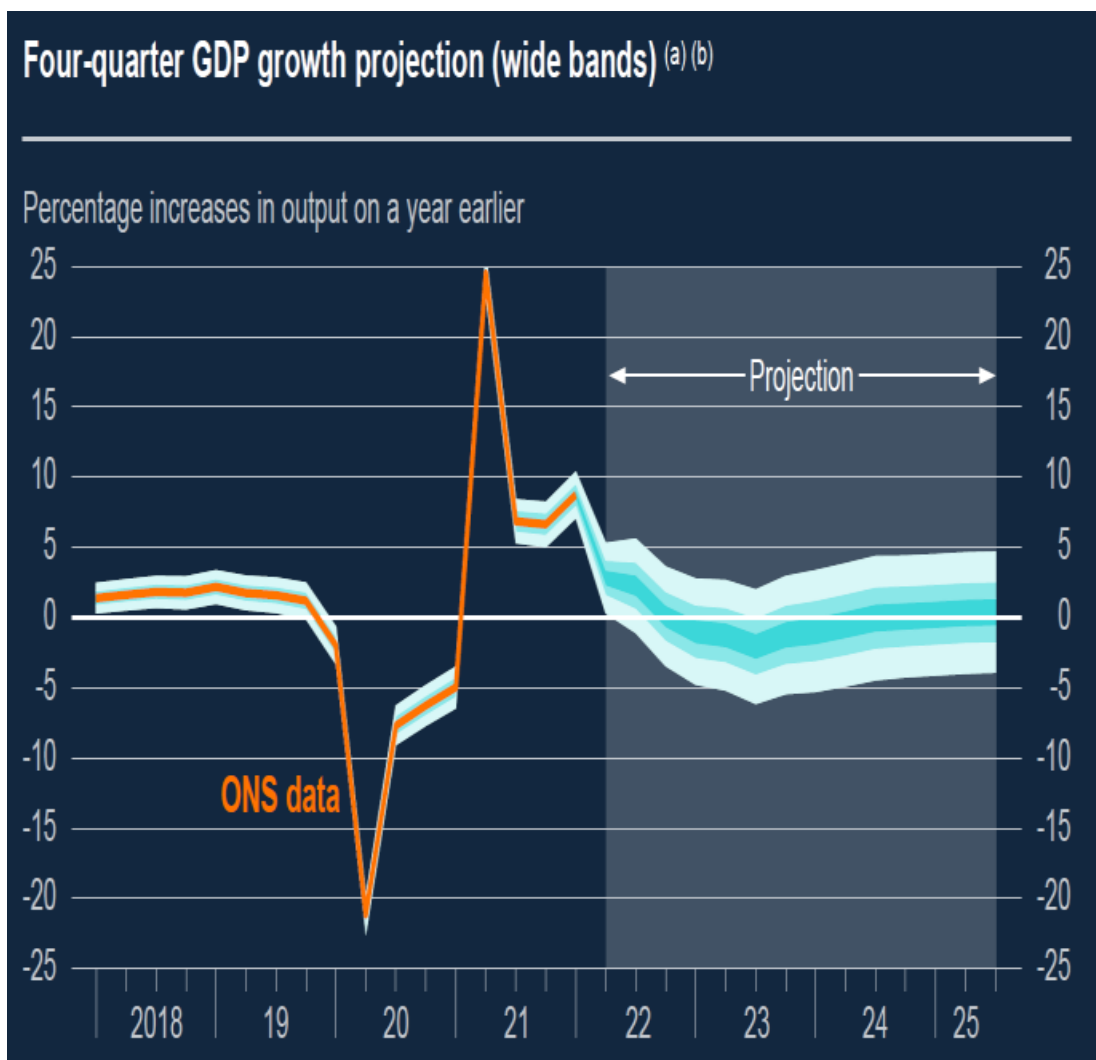
2.6 **New Homes Bonus Grant** – The PLGFS will announce figures and confirm whether the scheme is being extended

### 3. Other considerations

#### 3.1 Bank of England

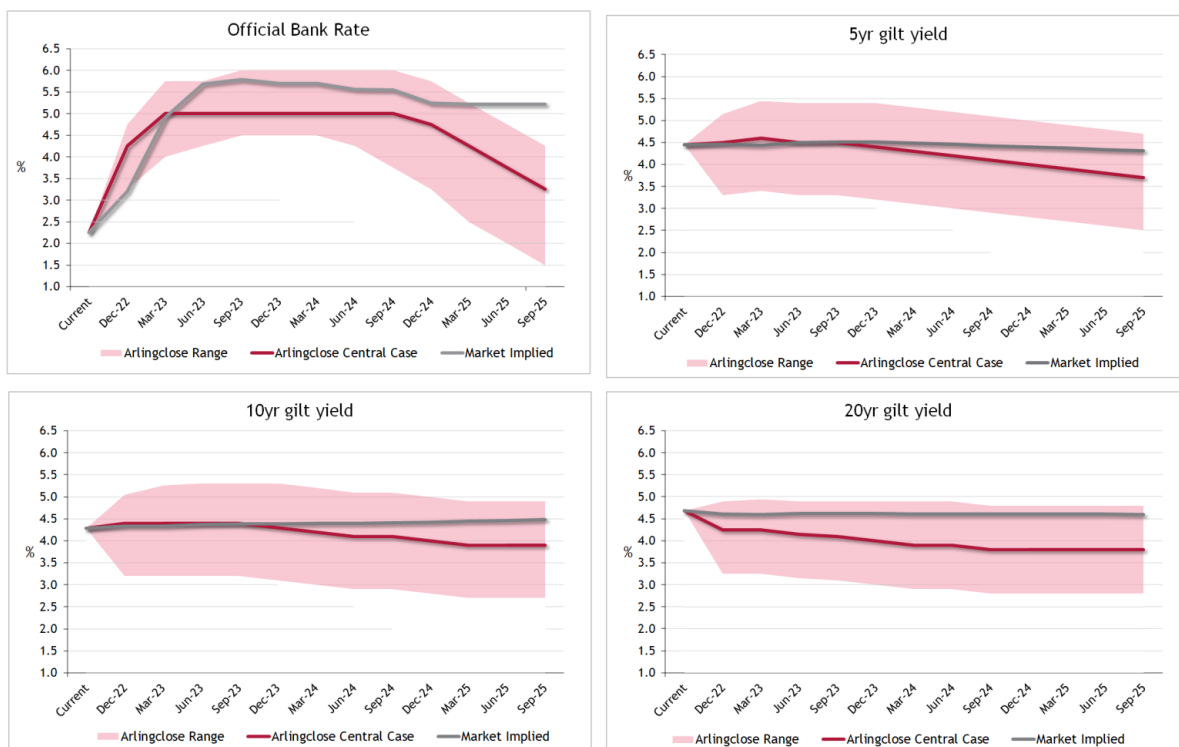
3.2 In addition to the charts above, the Bank of England produces regular updates and forecasts and shown below:

#### 3.3 UK GDP



3.4 Real household post tax income is projected to fall sharply in 2022 and 2023 while consumption growth turns negative. The UK economy is forecast to enter recession in Q 4 2022.

### 3.5 Interest Rates



3.6 **Gilts** – the Public Works Loan Board (PWLB) is the Council’s banker, and, unlike personal mortgages which are linked to the Bank of England official base rate, the PWLB interest rate are linked to the 20-year gilt market, which as can be seen from the above forecasts from Arlingclose is less volatile that the base rate.

3.7 Over the last three years, the Council has managed to fix the 50 year PWLB interest rates at an average rate of 2.3%

3.8 Officers in conjunction with our advisors are currently forecasting a 50 year fixed term interest rate of 3.4% in 2024/25 and based on the calculation, many of the affordable housing projects due to be completed and passed to Knowle Green Estates (KGE), will not be able to take place, as this high interest rate, will render the projects unviable for KGE.

3.9 As at close of business on Friday 18 November the certainty rate for Council was 3.77% (at one point in September it was above 5.5%) , which is an encouraging sign, but in this volatile current macroeconomic climate, and with recessionary pressures about to impact on the UK economy, it is too early to predict that these rates will fall below the 3.4% figure in the near future. Officers are monitoring the situation closely.

### 4. Other considerations

4.1 Based on the current projections as shown in 1.21 above, Officers are predicting a surplus for 2023/24 and significant deficits for the following three years, therefore, Council will have to plan carefully how it manages the 2023/24 Budget, through the budget setting process.

4.2 As a result of building cash back Sinking Fund reserves, the Council is benefiting from a one off forecast increase in interest receivable of £500k as a result of the increases in Bank of England Base Rate.

- 4.3 The implementation of IFRS 16 Accounting for Leases has also provided a one off forecast saving of £472k.
- 4.4 The current growth bids for 2023/24 amounting to £855k will need to be carefully considered and by allowing them in 2023/24, this will impact on 2024/25 and beyond, therefore, between now and the first draft of the budget more refinement of these bids will be required, and this should increase the surplus available for Council.
- 4.5 As mentioned above, Officers have allowed for the maximum increases in council Tax, based on the Autumn Statement (3% for 2023/24 and 2024/25) should council decide to implement a £5.00 (2.4%) increase, this would reduce the surplus by £53k and £61k for 2023/24 and 2024/25 respectively.
- 4.6 Alternatively, Council could consider putting these funds into an earmarked reserve to assist with the Cost of Living and inflationary pressures to protect key front line services to our elderly and vulnerable residents.
- 4.7 Officers have forecast that the Council will draw down the maximum amount from available earmarked reserves (Cost of Living & Sinking Funds) and they may wish to retain the funds in these reserves to deal with future issues.
- 4.8 The MTFs and assumptions made by Officers, provides Council with some options to consider, taking into account the projected future years deficit beyond 2023/24.

## **5. Financial implications**

- 5.1 No material implications, other than those discussed above, noting that it is not an exhaustive list.

## **6. Risk considerations**

- 6.1 As set out in the report, focusing on opportunities to procure goods and services smarter should generate some opportunities to deliver financial savings.

## **7. Legal considerations**

- 7.1 Councils have a statutory duty to set a balanced Budget. It is essential that the Council has plans in place to ensure the Council remains financially viable over the next few years.

## **8. Equality and Diversity**

- 8.1 Any savings proposals impacting on service users will require an Equality Impact Assessment to be undertaken

## **9. Sustainability**

- 9.1 There is the potential to align climate change objectives with budget sustainability reductions as reductions in energy consumption assist in easing pressures on the Revenue Budget

## **10. Timetable for implementation**

- 10.1 December 2022 – draft 2023/24 budget made available to Committees.
- 10.2 January 2023 – 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.

10.3 24 February 2023 – Council approves growth and savings bids as part of the 2023/24 annual budget debate.

## **11. Contact**

11.1 [P.taylor@spelthorne.gov.uk](mailto:P.taylor@spelthorne.gov.uk)

**Background papers:** *Budget Briefing Presentation 21 June 2022.*

### **Appendices:**

Appendix A – MTFS 2023-24 to 2022-27