

Corporate Policy & Resources Committee



20 February 2023

Title	Draft Detailed Revenue Budget for 2023-24 Please note that some of the agenda items being discussed at CP&R Committee on 20 February, might impact on this report and officers may need to update this report to account for the Committee's decision, after the meeting.
Purpose of the report	To make a recommendation to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	Committee is asked to recommend that Council consider and approves the following: 1. To approve a 2.9% increase on the Spelthorne Borough Council element of the Council Tax for 2023-24. Moreover: a. The Revenue estimates as set out in Appendix 1 be approved. b. No funds, as set out in this report are to appropriate from General Reserves in support of Spelthorne's local Council tax for 2023-24. c. To agree that the Council Tax base for the year 2023-24 is 40,551 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 3, and 4. 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 2022//23. [Item T in the formula in Section 31b (3) of the local government Finance Act 1992, as amended (the “act”)] should be 40,551 band D equivalent dwellings and calculate that the Council Tax requirement for the Council’s own purpose for 2023-24 is £216.14 Per Band D equivalent dwelling.

That the following sums be now calculated by the Council for the year 2023-24 in accordance with Section 31 to 36 of the Local Government Act 1992.

A	107,487,700	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	-98,723,000	Being the aggregate of the amount which the Council estimates for the items set out in Section 31A (3) of the Act
C	8,764,700	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	216.14	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	216.14	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 2023-24 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011.

	<table border="1"> <thead> <tr> <th>A £</th> <th>B £</th> <th>C £</th> <th>D £</th> <th>E £</th> <th>F £</th> <th>G £</th> <th>H £</th> </tr> </thead> <tbody> <tr> <td>144.09</td> <td>168.11</td> <td>192.12</td> <td>216.14</td> <td>264.17</td> <td>312.20</td> <td>360.23</td> <td>432.28</td> </tr> </tbody> </table>	A £	B £	C £	D £	E £	F £	G £	H £	144.09	168.11	192.12	216.14	264.17	312.20	360.23	432.28
A £	B £	C £	D £	E £	F £	G £	H £										
144.09	168.11	192.12	216.14	264.17	312.20	360.23	432.28										
Reason for Recommendation	To deliver services for its residents the Council has to set a balanced Revenue Budget and determine its Council tax levels																

Precepts issued to the Council

	A £	B £	C £	D £	E £	F £	G £	H £
Surrey County Council	1116.72	1302.84	1488.96	1675.08	2047.32	2419.56	2791.80	3350.16
Surrey Police & Crime Commissioner	207.05	241.55	276.06	310.57	379.59	448.60	517.62	621.14

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 2023-24.

The Council has determined that its relevant basic amount of Council Tax for 2023-24 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 2023-24 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. At the time of writing the original draft report the Council has a draft balanced budget proposal for 2023-24. The Committee will need to resolve a couple of matters relating to the recruitment of FTEs, and if that should create a small deficit, then members of the Committee will need to work through a variety of options to reduce the gap and rebalance the budget. These options include reducing the value of growth bids; increasing the value of savings; increasing some of the fees and charges.
- 1.2 The main points from the 2023-24 Budget as set out in Appendix A are as follows: -
 - (a) Increase in the Spelthorne Borough Council element of the Council Tax is £6.09 (2.9%) for the year

- (b) Pay Award for all staff, fixed sum of £1,925, this is an increase of just over 10% for the lowest grade and a little under 2% for the highest grade, with an average pay rise of 3.54%.
 - (c) Discretionary Fees and Charges inflation applied 5% (with exception of Meals on Wheels and parking fees)
 - (d) Contract inflation 1.7%
- 1.3 The Council has done a great job of dealing with an extremely challenging economic context with the UK economy having firstly as result of the COVID_19 pandemic the worst economic downturn over 300 years followed by the Cost of Living Crisis. This has not been straight forward.
- 1.4 However, the Council and its residents remain in exceptionally challenging and uncertain times, and although the challenges faced by Council as a result of the COVID-19 pandemic are diminishing, the cost of Living crisis, which was forecast to have an adverse impact of £1.2m on the Council's Budget position. With Consumer Prices Index (CPI) inflation for the twelve months to 31 December 2022 averaging 10.5% and, in some areas, food shopping, construction and energy bills soaring above the CPI Index, as much as between 20-30%, times are starting to get tougher for our residents (and businesses), particularly as the level of Government support for energy bills will reduce in April. The increase in the Bank of England base rate to 4%, with the financial markets predicting that there is another base rate rise to come before the rate peaks, this is a ticking timebomb for the home owners in the borough as they come to the end of their cheap fixed term mortgage arrangements at under 1% and will be renewing between 4-6%, this means they will have to make some very tough decisions about the future, again, this is likely to impact on the Council with the likelihood of lower collection rates and higher bad debt write offs.
- 1.5 The increasing interest rates is having a serious impact on the viability of the Council's residential and regeneration development projects. The reduced (compared to original proposals) height restrictions have seen almost £70m written off our future cash inflows over a fifty year period, the increased construction costs have seen a further £33m added on to the Council's capital programme, and when assessed against the forecast 200% increase in loan interest costs, a further £190m have been added on to the Council's cash outflows. Over the coming months, Officers will be monitoring the actual and forecast interest movements and will continually reassess the viability of each project, to appraise. It is positive that at the Extraordinary Council Meeting on 2nd February 2023 the Council approved a fresh strategic approach, including seeking to maximise Homes England grant funding designed to put these schemes on a sustainable basis thereby avoiding £9m of capitalised costs write off to Revenue enabling this balanced budget proposal to be considered
- 1.6 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? All of which, has had a serious impact on the Medium Term Financial Strategy and the budget setting process for 2023-24 and beyond.
- 1.7 The Council is continuing to see reduction in some of its services, fees and charges income, the amounts of Council tax and business rates collected, and this challenging news is offset by a small increase in our treasury

management income as the Bank of England has recently raised the base rate.

- 1.8 As the United Kingdom moves from global pandemic to economic recession Council is continuing to provide extra support, including financial support to many of our services This is making our ability to predict when things will return to 'normal' conditions extremely difficult.
- 1.9 Unplanned global issues, such as, the war in Ukraine have also impacted on the Council this year, notably with our investment and regeneration portfolio, where one of the tenants was on the UK Government's prescribed list and this led to the loss of rental income and ultimately a tenant. Whilst the property was empty, Officers brought forward a planned maintenance programme to reduce disruption to the new tenant, once they have moved in. Costing the Council just over £4.0m, and this along with the loss of two further tenants, has resulted in a net £5.9m being required from the Sinking Funds to balance the 2023-24 budget. On a positive side we already have prospective tenants expressing an interest in moving into this location.
- 1.10 The Council was aware of the potential impact of these issues in 2021-22 approved £2.5m of the underspend that year, be transferred to the Sinking Fund, which means that only £2.4m needed to be found from the Sinking Fund to cover the £4.0m unplanned short fall from the Ukrainian War.
- 1.11 Discussions are currently ongoing across Surrey councils about seeking approval for a Surrey Deal by Government which could have future financial impacts for district and borough councils.
- 1.12 In presenting this balanced budget, with general reserves, protected, as contingency to support our services, we are continuing to show a measured approach in managing both the uncertainty surrounding the past impact of COVID-19 and the future impact of the Cost of Living crisis on the Council, 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, as highlighted in 1.5 above, the Council is facing some major challenges over the next three years caused by the delays in finalising the development properties and the delays in income flowing from Knowle Green Estates.
- 1.14 The forecasts for the MTFFS indicate that whilst the Council has managed to balance the 2023-24 budget, the forecasts for the following three years are challenging:
 - (a) 2024-25 - £3.8m deficit
 - (b) 2025-26 – £6.3m deficit
 - (c) 2026-27 - £9.8m deficit
- 1.15 It is therefore really important that in the current year the Council focuses in the coming year on the strands within its Medium Term Financial Strategy to ensure it delivers actions which will close the above gaps.
- 1.16 Officers will be monitoring the medium term closely, particularly any adverse interest rate movements and unnecessary delays to the building of the Council's development projects, as the Council could run the risk of £8.9m of capitalised revenue costs, being charged to the revenue budget.

- 1.17 Having identified over £430k of savings as part of the 2023-24 budget setting process, Officers will also be working to identify additional cashable service improvements and savings through all the services over the next four years.
- 1.18 Appendix 1 summarises the current draft detailed Budget proposed for 2023-24. 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

- 1.19 The Government has extended the Business Rate Retention programme in its current 50% form until 2025-26 and along with the “Fair Funding Review” it will not progress until after the next general election.
- 1.20 Spelthorne Borough Council is also participating in the Surrey National Non Domestic Rate Pool, alongside other some of the Surrey Districts and Boroughs and Surrey County Council and this will yield an estimated additional income of £450k in 2023-24.

Grant Settlement

- 1.21 The Government’s Local Government Funding Settlement was announced on 21 December 2022 and confirmed that Spelthorne would receive as a new Core Spending Power 3% increase Guarantee grant £1.48m in 2023-24 and £1.2m in 2024-25. As mentioned last year, because of the reduced number of new dwellings built in the borough, the Council’s New Homes Bonus reduced by over £1.1m, down to £101k, so it was fortunate that we have received the new Core Spending Power grant which has offset this year the reduction in New Homes Bonus Grant.
- 1.22 After a number of years of not having received any Revenue Support Grant, we have been notified that for 2023-24 we will receive, £91,000 of Revenue Support Grant.

2. Council Tax

- 2.1 Whilst the Government has limited the amount of Council Tax for shire districts and boroughs to either 3% or a rise of £5 on Band D (whichever is the higher) which is a slight increase on the previous limit of higher of 2% or £5,. In our case 3%, would equate to £6.30 on band D. Council will be asked to recommend an increase of 2.9%, which equates to £6.09. County Councils and Unitary Authorities can levy a combined Council tax and additional adult social care precept of up to 4.99%, although Surrey County Council is only applying a 2.99% for 2023-24. The referendum limit for the Police has been set at an increase of £15 Band D equivalent to 5.07% .

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 2023-24

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. See appendix 4~~
- 3.2 The Council has continued to take in to account the views of our residents based on last year's budget consultation. Given the challenges over the medium term it is suggested that it might be useful and timely to undertake a further consultation exercise in 2023-24 to inform considerations for period to 2026-27.

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 residual challenges posed by the COVID-19 global pandemic and the both the immediate and ongoing impact of the Cost of Living Crisis which may impact either favourably (in the case of interest we earn on our surplus cash) or adversely on the Council Revenue budget. Considerable work has been undertaken to estimate the potential impact of the Cost of Living crisis based on the knowledge gained during the pandemic and previous inflationary challenges. 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 2023-24 but also to move us towards us in a sustainable position to balance the Budget in future years.
- 4.2 **Pay and price levels** – a £1,925 payment to each Full Time Equivalent employee is being recommended to Council, with the full support of the local Unison branch, to provide some recognition of the impact of the Cost of Living crisis on the Council's workforce. For colleagues on the lowest grades, this will equate to a 10% increase, whereas colleagues, for the highest grade it will equate to approximately a 1.5% increase. Overall, this will represent a 3.54% increase across the board.

Pensions

- 4.3 Pension Fund valuations for our employer contribution rates for 2023-24 were agreed notified to the Council in November 2022 as:

- (a) The primary rate which is the contribution paid on an ongoing basis as employees earn additional entitlement will continue at 17.3% for 2023-24 to 2025-26.
 - (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. This will increase to £544k in 2023-24, increases to £605k in 2024-25 and to £650k in 2025-26
- 4.4 The next Valuation applies as at 31 March 2025 and will impact on employers' contributions for the years 2026-27 to 2028-29.

5. Fees & Charges

- 5.1 All fees and charges have been reviewed both by budget managers and the relevant service Committees in the January Committee cycle. See the separate report on the agenda. One Budget choice Councillors have had to make as part of the process is whether to apply its original inflation proxy of 5% or the current CPI percentage for the twelve months to 31 December 2022 of 10.5%. [Report will be updated to reflect outcome of Councillors' decision on this]

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 the economic challenges to be faced over the next five years due to higher than anticipated inflationary pressures. In aggregate our income generation was recovering but we are still not expecting some of our income streams such as car parking to fully return to pre-pandemic levels for some time to come, if at all. By setting fees and charges below inflation, Council could be setting up long term issues for the Council, although, if as a result of these modest increases, more residents use the Council's services, the increased volume could make up the income short fall in real terms.
- 5.3 The net income contribution to the Revenue Budget from our commercial asset's portfolio is budgeted at £10.832m for 2023-24 representing no change when compared to 2021-22, in order to achieve this, as mentioned in 1.9 above, the Sinking Fund will contribute £5.9m to maintain 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) - Currently** manages 95 apartments for the Council and is providing homes to key workers, disabled residents and families in the Borough.
- 5.5 The delays in completion of the five remaining properties, loss of income as apartment numbers were reduced due to height restrictions, increase construction costs and a substantial increase in loan interest rates, as highlighted in 1.5 above, would cause significant challenges for the Council's housing delivery company.
- 5.6 At the ECM on 2 February, in light of the pressures facing KGE, and the impact on its short term cashflow, it was agreed to provide the necessary support to enable KGE to move forward with the correct funding in place, and

to put the Council's residential delivery pipeline onto a financially sustainable basis.

- 5.7 As a result of the challenges caused by the adverse movement in interest rates, Officers, in line with the approach agreed by ECM on 2nd February, are looking at all options to source alternative grants and income, in order to reduce the amount of borrowing required from the PWLB, and Council intends to develop Thameside House and Benwell House phase 2 as private rental options, within the management of the Council, rather than KGE.
- 5.8 One of the key policy choices for the Committee in the next couple of years 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.
- 5.9 KGE is recharged for services provided and a small interest rate margin and this has been accounted for in the Council budget.
- 5.10 **Spelthorne Direct Services Ltd. (SDS)** – The company continues to grow winning a couple of prestigious contracts and is performing well, despite the challenges of establishing a new business in the middle of a global pandemic. SDS is recharged for services provided to it by the Council budget, and is only making finance repayments on start-up capital

Contingencies.

- 5.11 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 £5m over the next three to five years.

Interest Rates

- 5.12 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 3.18% as at 31 December 2022 which is a still a good rate of return even though base rate rose from 0.25 to 3.5% in the 12 months to December 2022..
- 5.13 This time last year the Bank of England Base Rate stood at 0.5%, nine increases later in February 2023, it stands at 4.0%, with the market factoring in another rate increase later this year.
- 5.14 Whilst this is bad news for our capital programme, as the cost of borrowing increases, and due to the number of base rate increases, this has changed almost on a daily basis, yesterday, the Council was being offered 4.57% for 12 month cash deposits.
- 5.15 This is good news for our investments and the 2023-24 detailed budget reflects this opportunity, as Officers are predicting £2.4m of interest from all our investments, an increase of over £1m on the previous year.

6. Investment Income

- 6.1 The Corporate Policy & Resources Committee has separately received the Treasury Management Strategy for 2023-24 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 one or possibly two rate changes which would affect investments and full details are shown in the Treasury Management Strategy Report.
- 6.3 The Corporate Policy & Resources Committee is receiving separately on this agenda the Capital Strategy, which is based on their feedback received, 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.
- 6.4 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

- 6.5 The Corporate Policy & Resources Committee is reviewing its reserves levels and the purposes for which it holds reserves in the Reserves Policy. An updated Reserves Strategy is on the Agenda of this Committee for recommendation to the February Council the Budget indicates that we will use the following:
- (a) £36,800 – from the Planning Performance Agreement to fund a Systems Administrator Support Officer
 - (b) £48,800 – from the Green Initiatives Reserve to fund the Environment and Sustainability Officer for 2023-24
 - (c) £128,000 - from the Business Rates Equalisation Reserve to fund for 2023-24 two temporary posts in the Economic Development Team (please refer to the appendices below for more details).
 - (d) £75,000 from the Local Plan Reserve
 - (e) £362,000 from the Cost of Living Reserve to fund some of the £1.2m additional costs associated with the crisis, impacting on the Council's budget.
 - (f) £472,000 from the International Financial Reporting standard (IFRS 16) Reserve, noting that £400k, will come from a recommendation at Outturn 2022-23
 - (g) As mentioned in 1.9 above, a net £5.9m is being transferred from the Sinking Fund to cover short term dips in investment assets rental income (in line with the purposes for which the Sinking Funds reserves were put aside for) the £4.0m unplanned impact of the war in Ukraine and the prudence of Council in recommending that £2.5m be utilised for the underspend at outturn for 2021-22.
 - (h) Officers will be monitoring not only Outturn at 2022-23, as indications are that the Council will have an underspend, but 2024-25 and beyond as the Cost of Living crisis impacts on the economy and our tenants. Officers are currently forecasting that a further net £3.2m may be required in 2024-25 from the Sinking fund to protect the Revenue Budget, with net contributions into the sinking funds for 2025-26 and beyond.

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 services and support to our residents.

The Council is anticipated to 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 £36m

Growth items

- 6.6 All service committees have reviewed the growth bids relating to their services and the Appendix 3 reflects the bids which have been supported by those Committees and fed into this Committee.
- 6.7 Additional spending pressures or reduced income streams totalling £1.4 have been included in the budget. Appendix 2 summarises the discretionary budget growth items.
- 6.8 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
 - (e) No growth bids for staffing posts to be considered unless externally funded or as a result of a specific statutory requirement
- 6.9 There are a number of areas of new or increased expenditure items included in the 2023-24 budget and some of these are highlighted below:
 - (a) The Committee has 9 revenue growth bids and one capital growth bid for staff of which 2 revenue growth bids don't comply with the committee's guidance, i.e., they are not fully funded or statutorily required. These have been included in the balanced budget, and amount to £69k

Further, there is an additional report being discussed at tonight's meeting regarding another FTE request, which will unbalance the budget, therefore the committee will be required to find savings to keep the budget balanced.

- (b) Additional staffing resources / recruitment & retention and shown below is our current FTE position by cost of services at 31 December 2022 and for the previous five years.

Actual FTEs					
2018	2019	2020	2021	2022	2023 EST
5.93	5.93	6.30	6.23	6.23	6.08
1.56	1.75	1.75	1.75	1.75	1.75
8.62	10.41	12.46	12.46	11.18	11.27
23.69	26.26	27.27	30.68	31.02	29.37
69.39	71.61	78.88	77.01	79.11	84.28
18.62	23.75	24.22	24.23	21.75	23.24
19.57	21.60	22.38	22.39	23.39	25.32
8.95	10.95	10.77	10.78	11.67	10.43
135.90	130.95	139.02	133.56	133.79	127.46
36.85	39.81	38.75	43.26	53.29	52.53
3.00	3.00	3.00	3.00	2.00	1.00
3.00	3.00	3.00	3.00	3.00	3.00
4.78	4.06	4.66	4.69	5.69	5.69
8.46	10.06	11.05	13.06	13.66	14.59
2.58	3.00	3.88	3.89	3.89	4.88
350.90	366.14	387.39	389.99	401.42	400.89

- (c) The next table highlights the Council approved FTE's based on the annual growth bids, adjusted for all lapsed bids.

Budgeted approved FTEs					
2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
5.93	5.93	6.93	6.60	7.11	7.08
1.56	1.75	1.75	1.75	1.75	1.75
8.61	10.39	12.65	12.46	13.17	12.90
26.68	32.57	36.37	35.15	41.00	46.12
70.46	78.08	84.22	86.12	89.81	93.99
22.58	27.65	27.93	25.02	25.75	26.07
21.66	21.30	23.09	22.79	22.79	25.33
9.00	11.00	10.94	11.78	11.83	10.80
156.07	161.13	162.17	163.94	162.08	147.50
34.60	43.34	43.64	50.36	57.18	56.97
3.00	3.00	3.00	3.00	2.00	2.00
3.00	3.00	3.00	3.00	3.00	3.00
3.36	4.28	4.28	4.69	5.69	5.69
8.46	10.46	9.46	9.40	10.00	11.78
3.58	3.58	3.58	3.89	3.89	3.89
378.56	417.46	433.01	439.95	457.03	454.88

As can be seen, the Council has over 10% of the budgeted FTE roles unfilled. So can be seen that the budgeted FTEs for 2023-24 compared to 2022-23 is falling slightly.

(d) Additional costs of service provision

Savings & Additional Income

6.10 In total savings of approximately £430k have been found and this was mainly due to an exercise carried out to remove redundant codes from the budgets.

6.11 Precepts

6.12 Surrey County Council at its meeting on 7 February set a Band D Council tax of £1675.08 representing a 2.99% increase and Surrey Police at its tax setting meeting on the 3 February set a band D Council tax of £310.57 representing a £15 increase on Band D representing a 5.1% increase.

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 2023-24 by 2.9%. The Council is very aware of the financial pressures many of its residents are currently under because of the impacts of Cost of Living crisis, however this increase equates to just over a quarter of 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 past impact of the COVID19 pandemic and current and future impact of the Cost of Living Crisis it is even more important than ever to ensure that the Council pursues a careful and prudent approach to setting its budget (both Revenue and Capital) and considering budget risk, particularly around any further delays to its development properties, otherwise a further £8.9m of capitalised revenue costs may have to be charged back against the 2023-24 Revenue Budget and this will put services at risk.

9.3 Officers will need to monitor carefully the movements in interest rates, make critical judgements on when fees and charges income are likely to fully recover, and evaluate and manage a number of risks facing its commercial and retail income streams, and how this will impact on the Council's current and future budgets

9.4 Given the challenges outlined earlier in the report officers, will continue to monitor collection rates for Council Tax, Business Rates, and investment and regeneration assets and Knowle Green Estates Board will monitor rent areas in residential units.

- 9.5 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.
- 9.6 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.
- 9.7 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, which clearly are of increased significance at present
 - (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.
- 9.8 In assessing the above the s151 Officer is having regard to the constructive and useful discussions, which have been taking place since last summer, with DLUHC colleagues focusing on the Council's approach to mitigating future risks with respect to its debt levels and the role the sinking funds play in this.
- 9.9 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 2023-24.

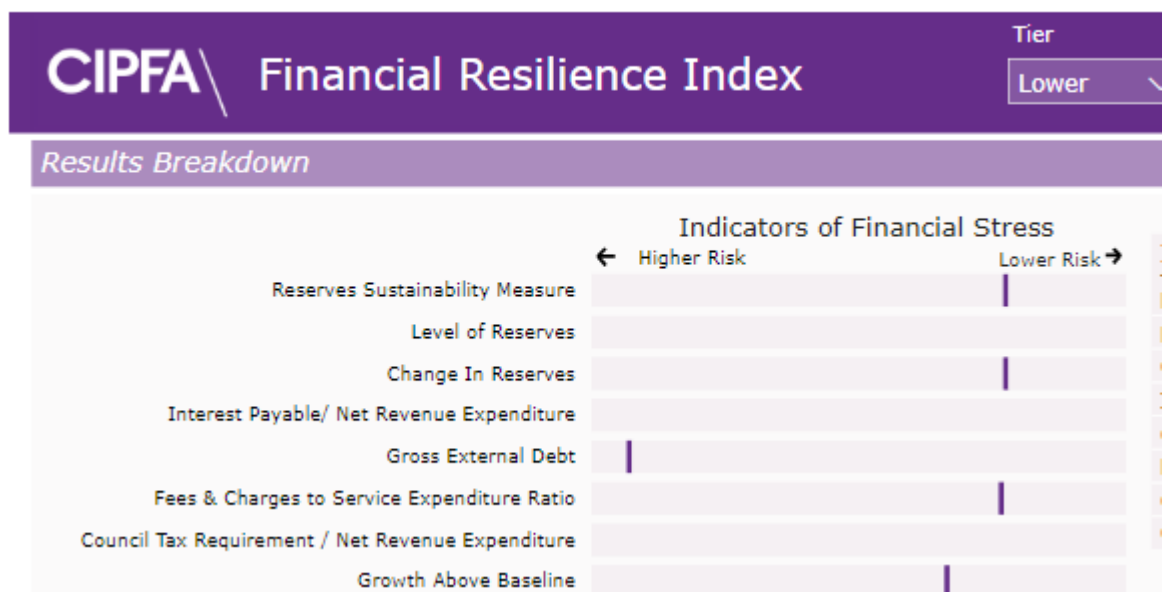
In coming to a view on the adequacy of reserves it is necessary to take several issues into account including:

- (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

9.10 The above issues, along with the Reserves Policy were considered as part of the Outline Budget report which are on the Corporate Policy & Resources Committee Agenda for this meeting, and which reviewed projected balances on reserves. The Council's Revenue Reserve, which acts as a contingency reserve is currently £2.2m which represents 25.2% of the proposed net budget for 2023-24.

9.11 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.

9.12 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 the residual economic impacts of COVID-19 and now the Cost of Living Crisis. 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.



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.

- 9.13 In response to the impact of COVID-19 which saw the biggest economic downturn for more than three hundred years, and now the Cost of Living crisis the Council has carefully reviewed the adequacy of its Sinking Funds reserves designed to be able to absorb potential drops in its commercial income stream. Corporate Policy and Resources Committee in November approved the Sinking Fund Reserves strategy proposals. The Council produced revised Sinking Funds projections for the next ten years on both an expected case and worst-case basis, as part of the annual budget setting and MTFS process, as well as a separate exercise, which looks at 10 – 50 years.
- 9.14 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 over the last few years, because of the pandemic and more recently the cost of Living crisis, 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. Further, as the Council has no intentions to sell these assets any paper loss incurred to date, will not crystallise.
 - (b) Through the Council’s Sinking Fund strategy, it is seeking to ensure it the council can cope with any unplanned situation, like the war in Ukraine. 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.
 - (c) 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.
 - (d) 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.
- 9.15 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 Cost of Living crisis, which has followed on so quickly, after the global pandemic.

- 9.16 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 LGIImprove 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. Procurement Implications

- 10.1 None directly applicable

11. Risk Implications

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

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

Outside control	Internally based
Economic and financial impacts of the cost of Living crisis, following so soon after the COVID 19 pandemic, 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
External geopolitical conflicts resulting in impacts such as sanctions which impact on income streams	
Interest rates	Failure to sufficiently resource delivery of key asset income generation projects
Severe public sector spending cuts, including cash increases which are significant real terms 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 of labour and materials, leading to longer lead times and delays completing our development projects.	Reliance on interest earnings to balance the budget

Changes to redistribution of Local Government Funding- now anticipated to happen after General Election	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 after the General Election 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.

13. Legal implications

- 13.1 Councils have a statutory responsibility to set a balanced budget by the beginning of March each year.

14. Equality and Diversity

- 14.1 The detailed budget proposals apply to all residents across the Borough. Any significant service changes underpinning the Budget will have Equality Impact Assessments undertaken.

15. Sustainability/Climate Change Implications

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

16. Timetable for implementation

- 16.1 Full Council to approve the budget on 23 February 2023.

Background papers: There are none.

Appendices:

Appendix 1 – Detailed budget for 2023-24

Appendix 2 – Net Expenditure Budget 2023/24 by Committee

Appendix 3 – Revenue Growth bids for 2023-24

Appendix 4 – Revenue Savings bids for 2023-24