

Council

22 February 2024



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| Title | Detailed Budget for 2024-25 |
| Purpose of the report | To make a key decision |
| Report Author | Paul Taylor Chief Accountant |
| Ward(s) Affected | All Wards |
| Exempt | No |
| Corporate Priority | Community Addressing Housing Need Resilience Environment Services |
| Recommendations | <p>Council is asked to approve the following:</p> <ol style="list-style-type: none">1. To approve a 2.9% increase on the Spelthorne Borough Council element of the Council Tax for 2024-25. Moreover:<ol style="list-style-type: none">a. The Revenue estimates as set out in Appendix 1 be approved.b. £3,115k as set out in this report are to be appropriated from General Reserves in support of Spelthorne's local Council tax for 2024-25.c. To agree that the Council Tax base for the year 2024-25 is 39,241 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. 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 20035. The Council Tax Base for the whole Council area for 2024-25. [Item T in the formula in Section 31b (3) of the local government Finance Act 1992, as amended (the "act")] should be 39,241 band D equivalent dwellings and calculate that the Council Tax requirement for the Council's own |

purpose for 2024-25 is £222.41 Per Band D equivalent dwelling.

That the following sums be now calculated by the Council for the year 2024-25 in accordance with Section 31 to 36 of the Local Government Act 1992.

| | | |
|----------|--------------------|--|
| A | 107,727,200 | 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 | -98,999,600 | Being the aggregate of the amount which the Council estimates for the items set out in Section 31A (3) of the Act |
| C | 8,727,600 | 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 | 222.41 | 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 222.41 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. | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>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.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <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> <tr> <th>£</th> <th>£</th> <th>£</th> <th>£</th> <th>£</th> <th>£</th> <th>£</th> <th>£</th> </tr> </thead> <tbody> <tr> <td>148.27</td> <td>172.99</td> <td>197.70</td> <td>222.41</td> <td>271.83</td> <td>321.26</td> <td>370.68</td> <td>444.82</td> </tr> </tbody> </table> | | | | | | | | | | A | B | C | D | E | F | G | H | £ | £ | £ | £ | £ | £ | £ | £ | 148.27 | 172.99 | 197.70 | 222.41 | 271.83 | 321.26 | 370.68 | 444.82 |
| A | B | C | D | E | F | G | H | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £ | £ | £ | £ | £ | £ | £ | £ | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 148.27 | 172.99 | 197.70 | 222.41 | 271.83 | 321.26 | 370.68 | 444.82 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reason for Recommendation | To deliver services for its residents the Council must 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 | 1,172.40 | 1,367.80 | 1,563.20 | 1,758.60 | 2,149.20 | 2,540.20 | 2,2931.00 | 3,517.20 |
| Surrey Police & Crime Commissioner | 215.71 | 251.67 | 287.62 | 323.57 | 395.47 | 467.38 | 539.28 | 647.14 |

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 2024-25.

The Council has determined that its relevant basic amount of Council Tax for 2024-25 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 2024-25 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. Summary of the report

| What is the situation | Why we want to do something |
|---|---|
| <ul style="list-style-type: none"> The Council has a statutory duty to set a balanced Budget and a Council Tax rate for its share of the total Council Tax Bill. The detailed 2024-25 budget report consolidates the Committee's work between September 2023 and January 2024 and includes all the approved revenue growth bids and savings plans. . The below the line (Funding) balances the budget and is explained in the Below the Funding Report presented to the Corporate Policy & Resources Committee meeting on 19 February. . | <ul style="list-style-type: none"> Council needs to set a balanced budget to continue to fund the services our residents, businesses and communities need. The 2024-25 budget is balanced and therefore any amendments proposed by Councillors need to provide both the impact on the Cost Centres (above the line) and what the impact on the funding (below the line) will be. Council must fulfil its statutory duty and agree a balanced 2024-25 budget at the meeting on 22 February 2024, or before 31 March, if not agreed at that meeting. |
| This is what we want to do about it | These are the next steps |

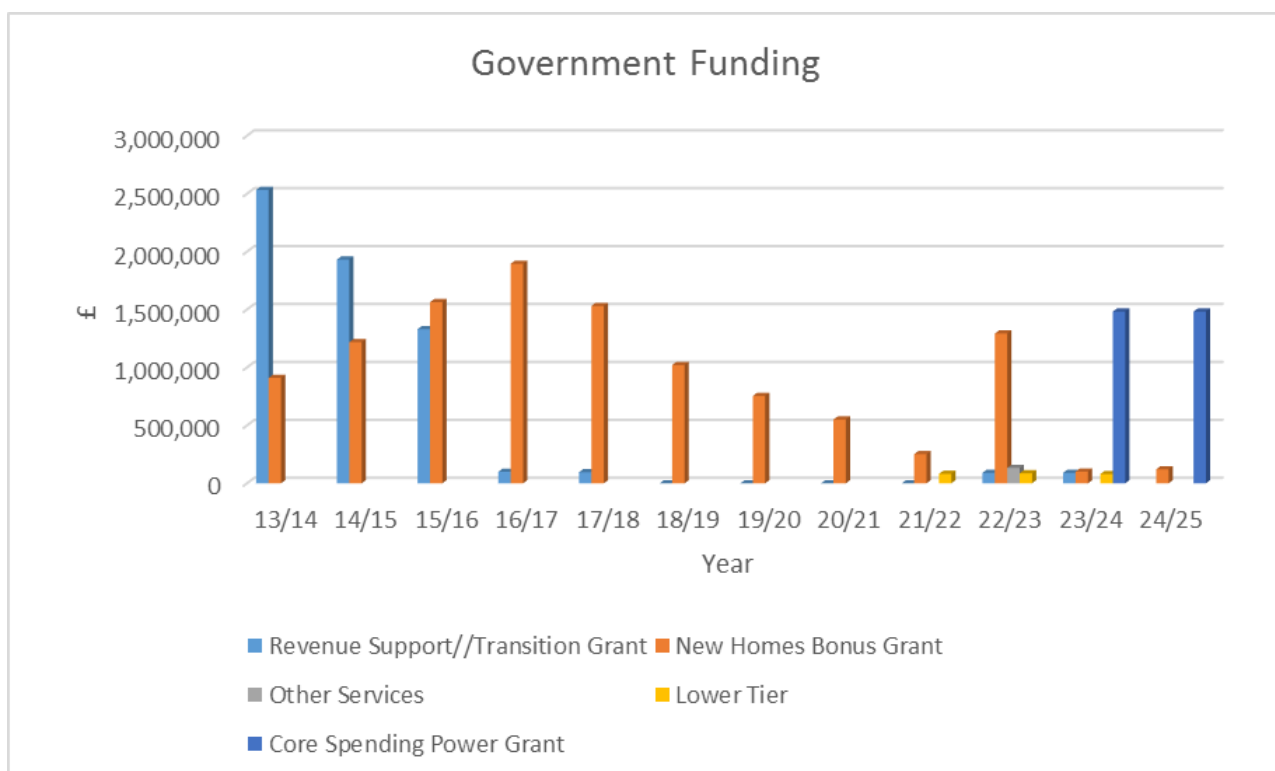
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|---|---|
| <ul style="list-style-type: none"> • Review all the appendices attached with this report. • Question Chairs of each Committee, Budget Managers and the Chief Accountant about any issues they may have. • Approve the recommended Detailed 2024-25 Budget. | <ul style="list-style-type: none"> • Approve the proposed 2024-25 Detailed Budget as set out in Appendix 1. • |
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2. Key issues

- 2.1 This report is subject to the outcomes agreed at the Corporate Policy & Resources Committee meeting on 19 February and officers may have to issue an addendum report to Council, to account for any changes, after the meeting.
- 2.2 This figures contained in Appendix 1, include all the growth bids and savings plan approved by each Committee and agreed by the Corporate Policy & Resources Committee.
- 2.3 By law Councils are required each year to set a balanced budget. Council will need to be aware that :
- (a) The proposed increases in Car Park charges, which will be subject to public notice.
 - (b) The proposed increases in the Taxi Licensing Fees are subject to the relevant approval at Licensing Committee, which is meeting in March.
 - (c) For noting, the Council is in early discussions with a tenant at Communications House , to retain them in the Borough, and this will involve between £1.5m and £2.0m of projects costs, followed by a rent increase, The discussions have not progressed far at the time of preparing this report and by virtue of the value of these potential contracts, Council needs to be aware of the matter, which could result in either an in-year growth bid for capital and or revenue in 2024-25 and or 2025-26.
- Officers will be looking at several alternatives to dealing with this significant growth bid and if it is:
- Capital related; this can be dealt with as an update to the Estimated Capital Programme and could be funded from internal borrowing.
 - Revenue related; this can be dealt with in several ways including:
 - Delaying other existing refurbishment works for a number of year(s) .
 - Use of the Sinking Fund Reserve with the relevant Council approval.
- 2.4 The main points from the 2024-25 Budget as set out in Appendix 1 are as follows: -

- (a) Increase in the Spelthorne Borough Council element of the Council Tax is £6.27 (2.9%) for the year.
 - (b) Pay Award for all staff, 2.8% and a further 2.8% in 2025-26 (part of a two-year deal), supported by Unison.
 - (c) Discretionary Fees and Charges inflation applied at least 5% (with exception of Meals on Wheels and Day Centre meals, which will be covered by increasing the Room Hire Charges to cover the reduced income.
 - (d) All discretionary fees over £25.00 were rounded up to the nearest pound, as instructed by the Corporate Policy & Resources Committee
 - (e) Contract inflation 5.0%
- 2.5 The Council has done a great job of dealing with the 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, and it is believed that the current situation will deteriorate as more residents renew their mortgages at substantially higher interest rates.
- 2.6 The Council also took the opportunity to create a £200k Cost of Living Reserve from existing funds, which was used almost entirely to provide support for vulnerable households during 2023-24.
- 2.7 It is clear that 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 largely diminished (although car parking income not quite yet back to pre-pandemic levels), the Cost-of-Living crisis, has adversely impacted on the Council, by over £1.0m in 2023-24. The decision not to raise fees and charges in line with the Consumer Price Index (CPI) in December 2022, which stood at 10.5%, and over 20% for food, has supported a number of the residents in the Borough, including the vulnerable and elderly.
- 2.8 Since November 2021, the steady increase in the Bank of England base rate to 5.25%, as at February 2024, has created 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, which have been reflected in the 2024-25 budget proposals.
- 2.9 The increases in interest rates over the last eighteen months have had a significant impact on the viability of the Council's residential and regeneration development projects and when combined with the financial impacts of reduced heights of buildings, increased construction costs for both materials and labour, in October 2023, Council decided to suspend all of its direct affordable housing projects removing £283m (net expenditure) from its Capital Programme, to allow Officers to reassess the situation and look at forming joint ventures to deliver the housing units desperately needs by younger families, key workers and vulnerable residents in the Borough.

- 2.10 Like many of our businesses in the Borough, the Council is having to forecast and plan.
- 2.11 Trying to predict just when the Council's operating income and services, will return to 'normal' without having to deal with the aftermath of a global pandemic or an ongoing Cost of Living crisis. All of which, has had a serious impact on the Medium-Term Financial Plan (MTFP) and the budget setting process for 2025-26 and beyond.
- 2.12 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 slight increase in our treasury management income because of the Bank of England increasing base rates over the last years.
- 2.13 Over the last years the United Kingdom has moved from global pandemic through to a Cost-of-Living Crisis the Council is continuing to provide extra support, including financial support to many of our services, including support to households as mentioned earlier. This is making our ability to predict when things will return to 'normal' conditions extremely difficult.
- 2.14 An unexpected increase in global events, such as, the conflicts being experienced across the world, including most recently the Red Sea, are also impacted on the Council, whether that is from this year, notably with our investment and regeneration portfolio, with the government freezing the assets of Russian Businesspeople, Conflicts in the Middle East, which slowed down a predicted downward trend in interest rates, are slowing the recovery process for the Council and its residents.
- 2.15 The Council borrowed during the period 2016-2018 over £1bn to invest in eight commercial properties, in order to replace the reduced funding from central Government, as shown by the chart below:



- 2.16 Over the fifty years life (approximately 44 to 46 years remaining) of the assets, the Council expects to generate over £2.5bn (unadjusted for inflation) in rental income and contribute over £0.5bn to deliver services and support all our residents, particularly the vulnerable, elderly and young in the Borough.
- 2.17 To mitigate the Council's financial risks and protect the residents of the Borough, Sinking Fund Reserves were established to provide support when required. The original aim seven years ago was to increase the Sinking Fund by at least £3.5m a year, which equates to a total of £24.5m. However, the commercial and regeneration property portfolio has outperformed expectations to 31 March 2023, and the Council was able to increase the Sinking Fund to £38m.
- 2.18 Over the next three years, as predicted and advised, Council will have to withdraw funds from the Sinking Fund Reserves to support services and the vulnerable residents in the Borough, and because of the prudent over funding of the Sinking Fund in previous years, Council has the necessary funds to meet the budget challenges and retain in excess of the planned £24.5m. This is using the sinking funds for the earmarked purpose they were designed for, as set out in the original council policy.
- 2.19 In presenting this balanced budget, it has been necessary to utilise £703.8k of the Council's Earmarked Revenue Reserves, which has been approved by the Corporate Policy & Resources Committee, because as mentioned earlier there was an exceptional growth bid of £907,600 to cover projected increase in statutory support for the homeless in the Borough and had it not been for this growth bid, the Council's budget would have been a surplus of £203.8k.
- 2.20 As a result of extensive financial modelling, ranging over the short term, i.e., a few years to the long term, i.e., up to 50 years, and the suspension of the Council Direct Accessible Housing projects, the Council is facing some significant financial challenges over the next three years with significant Council approved cash outflows in support flowing to Knowle Green Estates.
- 2.21 Whilst the Board of Knowle Green Estates Directors are implementing robust cost reduction and budgetary control regimes, the number of units available to rent, is not sufficient to cover its outgoings and therefore, Council will have to consider several options including transferring properties for equity shares or debentures in order to ensure that the Council's tenants, including key workers, young families and vulnerable residents are fully supported.
- 2.22 The forecasts for the Medium-Term Financial Plan (MTFP), otherwise known as the Outline Budget, which includes all the factors mentioned above indicate that whilst the Council has managed to balance the 2024-25 budget, the forecasts (see Appendix 1) for the following three years are challenging:
- (a) 2025-26 - £303k deficit
 - (b) 2026-27 – £2,791k deficit
 - (c) 2027-28 - £2,267k deficit
- 2.23 It should be noted that the Council are expecting in the future period 2026-27 will be particularly challenging if that is the year post the General Election Government implements the Fair Funding review and resets business rates allocations. It is anticipated when this happens that Surrey councils will be disproportionately hit.

- 2.24 It is therefore important that in the current year the Council focuses in the coming year on the strands within its MTFP to ensure it delivers actions which will close the above gaps.
- 2.25 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 approximately £16.0m (estimated at 31 March 2024) of capitalised revenue costs, being charged to the revenue budget. This is a key risk which is commented on further in the S151 Commentary below.
- 2.26 Having identified over £2.1m of savings as part of the 2024-25 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 of at least £800k. Moving forward in 2024-25 and onwards, the quarterly monitoring reports will provide regular updates on progress on delivery of savings such as transformation, procurement, and cashable. This is to ensure that Councillors are advised whether savings programmes are on track and if they are not, what actions are being taken to put them back on track.
- 2.27 Appendix 1 summarises the current Detailed Budget proposed for 2024-25. After allowing for Housing Benefit the gross budget is financed as follows,
- (a) Fees and Charges 33.9%
 - (b) Property Rental Income – Increasingly representing a greater proportion of the overall funding 22.9%
 - (c) Interest received – 3.0%
 - (d) General Revenue Grants, including New Homes Bonus which increased substantially this year & Retained Business Rates 20.1%
 - (e) Council Tax 20.1%

Business Rates Retention

- 2.28 The Government has extended the Business Rate Retention programme in its current 50% form until at least 2025-26 and along with the "Fair Funding Review" it will not progress until after the next general election.
- 2.29 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 retained income of £500k in 2024-25.

Grant Settlement

- 2.30 The Government's Local Government Funding Settlement was announced on 18 December 2023 and initially confirmed that Spelthorne would receive as a new Core Spending Power 3% increase Guarantee grant £1.84m in 2024-25 and £1.61m in 2025-26.
- 2.31 On 24 January, following extensive lobbying by the local government sector, which Spelthorne participated, as well as the Leader of the Council writing to our local MP, expressing concerns that the proposed increase in funds was not sufficient to enable councils to cope with the external pressures, particularly housing and temporary accommodation costs for district and unitaries. The Secretary of State increased the Core Spending Guarantee Grant to deliver a 4% increase in Core Spending Power. This increased the

council's grants by a further £127k and in total the councils' grants increased by £324k, when compared to 2023-24. This is a useful increase but is significantly less than the additional need to spend on housing let alone sufficient to cover our inflationary pressures. Councils and Social Care Councils at the same time received an additional £500m to assist with Adult social care pressures.

Within the £324k increase in grants were the following movements:

- (a) As a result of the reduced number of new dwellings built in the Borough, the Council's **New Homes Bonus** is essentially unchanged at £101.5k for 2024-25, compared to £101k, in 2023-24.
- (b) We have been notified that for 2024-25 we will receive, £96.8k of **Revenue Support Grant**. This represents a £6k (6.7%) inflationary increase.
- (c) **Lower Tier Grant** fell from £80k to £12k.

3. Council Tax

- 3.1 The Government has continued to limit the increase in the amount of Council Tax raised for shire districts and Boroughs to either 3% or a rise of £5 on Band D (whichever is the higher). In Spelthorne's case 3%, would equate to £6.48 on band D. Council will be asked to recommend an increase of 2.90% which equates to £6.27 on a band D (or approximately extra 12 pence extra per week). County Councils and Unitary Authorities can levy a combined Council Tax and additional adult social care precept of up to 4.99%, Surrey County Council is applying the 4.99% increase for 2024-25. The referendum limit for the Police has been set at an increase of £13 Band D equivalent to 4.19%, which the Surrey Police and Crime Commissioner has fully applied.
- 3.2 The Council share of the Band D Council Tax bill for council taxpayers in the Borough has fallen to 9.65% in 2024-25 (9.82%: 2023-24)

Council Tax Support Scheme

- 3.3 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

- 3.4 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 £1,562. We intend to continue to make this disregard for 2024-25

4. Budget Consultation

- 4.1 Given the challenges over the medium term a Borough wide residents consultation will take place in the autumn 2024, and will include specific budget considerations for the coming years, to assist the Council to adapt its Medium Term Financial Plan.

5. Basis of preparation of the detailed budget

- 5.1 **Service levels** – the budget estimates have been prepared based on maintaining existing service levels except where variations have been approved by the relevant 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 2024-26 but also to move us towards us in a sustainable position to balance the Budget in future years.
- 5.2 **Pay and price levels** – 2.8% increase across all staff grades to each Full Time Equivalent employee is being recommended to Council, for each of 2024-25 and 2025-26, equivalent to a cumulative 5.7% over two years (adding £1.2, to the budget) with this two year deal receiving the support of the local Unison branch.

Pensions

- 5.3 Pension Fund valuations for our employer contribution rates for 2023-24 to 2025-26 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
- 5.4 The next Valuation applies as at 31 March 2025 and will impact on employers' contributions for the years 2026-27 to 2028-29. On the basis of advice from the actuaries The Medium Term Financial Plan and Outline Budget projections has reflected and anticipated no increase in employer contributions from 2026-27.

6. Fees & Charges

- 6.1 In 2023-24 Council applied a 5% increase on its discretionary charges, when the CPI percentage for the twelve months to 31 December 2022 was 10.5%, to assist and support the residents of the Borough during the Cost of Living Crisis.

6.2 All 2024-25 fees and charges have been reviewed both by budget managers and the relevant service Committees in the January Committee cycle, with Corporate Policy & Resources Committee reviewing same at their meeting on 19 February.

6.3 **Income Generation**

6.4 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 three years, and the economic challenges to be faced over the next five years due to higher than previously 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 a while.. By setting fees and charges below inflation, Council could be setting up long term issues for the Council, although, if because of these modest increases, more residents use the Council's services, the increased volume and increase frequency of spend, could make up the income short fall in real terms and this is where the relevant Committees should focus their attention over the coming years.

6.5 The net income contribution to the Revenue Budget from our commercial asset's portfolio is budgeted at £10.0m for 2024-25, the Sinking Fund will contribute £2.0m (net) (2023-24: £10.0m) to maintain service delivery to the residents of the Spelthorne.

6.6 **Knowle Green Estates Ltd (KGE) - Currently** manages 105 apartments for the Council and is providing homes to key workers, disabled residents, and families (including Afghan families) in the Borough.

6.7 The suspension of the council's direct accessible housing deliver projects is having a significant impact on KGE and its finances.

6.8 In the short term, following the Extraordinary Council meeting (ECM on 2 February 2023, in light of the pressures facing KGE, and the impact on its short term cashflow, it was agreed to provide the necessary financial 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, whilst Council agrees on the way forward for is direct accessible housing projects.

6.9 As a result of the ongoing challenges and in particular the adverse movement in PWLB interest rates, the Board of Directors are looking at several recommendations to put to Council, in order to alleviate the financial pressure on KGE and substantially reduce the current level financial support received from the Council.

6.10 On such project to assist with increasing the number of rental units available for residents and thereby increasing the cashflow within KGE is the Local Authority Housing Fund (LAHF). Working with the Department for Levelling Up Housing & Communities (DLUHC) up to 40% funding has been provided to purchases eighteen properties in the Borough. This funding reduces the need to additional loan funding through PWLB and Officers, are looking at alternative approaches to funding the balance of these properties, that would benefit both KGE and the Council, including the issuing of share capital and taking out debentures to provide a flexible loan repayment structure,

particularly if the Council has funded these purchases from internal capital receipts, i.e., it has not had to borrow external funds to acquire these properties.

- 6.11 As part of the review of its direct accessible housing deliver projects, Council will also need to consider the future of KGE and how it will fit in with the revised strategy.
- 6.12 The Board of Directors approved a 2024-25 net expenditure budget for 2024-25 of £193k (2023-24: £428k) and improvement of £235k. Once KGE has returned to financial viability, one of the key policy choices for the Council 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.
- 6.13 KGE is recharged for services provided and a small interest rate margin and this has been accounted for in the Council budget.
- 6.14 **Spelthorne Direct Services Ltd. (SDS)** – The company continues to grow winning a few prestigious contracts and receiving exceptional customer services ratings.
- 6.15 The company is performing well and is current ahead of forecast and is forecast to generate a contribution of £81k at 31 March 2024. The Board of Directors approving a net revenue budget for 2024-25 of (£68k) (2023-24: (£44k)) and improvement of (£24k).
- 6.16 SDS is recharged for services provided to it by the Council budget and is only making finance repayments on start-up capital.

Contingencies.

- 6.17 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, the Council should be looking to increase this to £5m over the next three to five years.
- 6.18 This would provide some flexibility to meet one off expenditure in the year, rather than relying on existing Earmarked Revenue Reserves, which have been set aside for specific purposes and cannot be used elsewhere.

Interest Rates

- 6.19 The Council has benefited from many years of above average investment returns (over an eleven year period averaging at 4.03%) through a diversified range of pooled investment funds, as highlighted in the Arlingclose presentation to all Councillors on 17 January 2024. The return on these funds was 4.51% at 10 December 2023 (3.18% at 31 December 2022) which is a still a good rate of return even though base rate rose from 1.75% to 5.25% in the 12 months to December 2023.
- 6.20 Whilst this is bad news for the funding of our capital programme, as the cost of PWLB 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 5.60% for 12-month cash deposits.
- 6.21 This is good news for our investments and the 2024-25 detailed budget reflects this opportunity, as Officers are predicting £1.47m (2023-24: £2.4m)

of interest from all our investments, a reduction of approximately £1m on the previous year.

- 6.22 The downturn in the income projections are due to the fact that the Council will have less surplus operating cashflow to relend to other Local Authorities and invest in the overnight money markets. Should Council decide to fund the Leisure Centre via PWLB loans this could substantially improve these figures. However, it will be offset by a similar increase to the Council's aggregate loan interest charged, so overall a neutral impact on the Councils 2024-25 budget proposals.

7. Investment Income

- 7.1 The Corporate Policy & Resources Committee has separately received the Treasury Management Strategy for 2024-25 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.
- 7.2 Arlingclose advises the Council on expected one or possibly two rate changes in 2024-25 which would affect investments and full details are shown in the Treasury Management Strategy Report.
- 7.3 Council 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.
- 7.4 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

- 7.5 The Corporate Policy & Resources Committee is reviewing the Capital and Revenue Reserves Strategy Report at their meeting on 19 February, which indicates that £3,115k of funding from Earmarked Revenue Reserves will be utilised in 2024-25. The Detailed Budget Report (Appendix 1) indicates that in approving the Budget, Council will approve the following movements on the Council's reserves:
- (a) £96.7k – from the Planning Performance Agreement to fund a Systems Administrator Support Officer
 - (b) £46.3k – from the Green Initiatives Reserve to fund the Environment and Sustainability Officer for 2024-25
 - (c) £84.7k - from the Business Rates Equalisation Reserve to fund for 2024-25 two temporary posts in the Economic Development Team (please refer to the appendices below for more details).
 - (d) £71.7k – from Earmarked Reserves for play equipment (CIL/S106 funds) and Family Support Reimbursements from SCC.
 - (e) £5.7k – from Building Control Reserve to fund a net increase in staff costs, after additional fee income received.
 - (f) £90k – from the Green Belt Fighting Fund to complete the design code.
 - (g) As mentioned above, a net £2,016.1k is planned to be transferred from the Sinking Fund reserves 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) and as previously reported to Council, these pressures have been fully disclosed since 2021 and were based on the rolling five year projections produced by the Assets and Finance Teams.

- (h) £703,800 from the Social Housing Initiative Fund (Prevent Homelessness Revenue Grant Unapplied Reserve) to cover the deficit caused by the £907,600 growth bid in respect of the increased homelessness pressures in 2024-25, which is a mandatory service for the Council.
- (i) Officers will be monitoring not only Outturn at 2023-24, as indications are that the Council will have an underspend, but 2025-26 and beyond as the Cost-of-Living crisis impacts on the economy and our tenants. The Q3 Revenue Monitoring report indicates that due to improved rental income received and lower than anticipated cost, the Commercial & Regeneration property portfolios will deliver an over recovery of contribution of approximately £1m at 31 March 2024, and will be recommending to Council that this is transferred to the Sinking Fund to cover additional expenditure at Communications House, as a report will be submitted to Development Subcommittee in the next month.

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.

In 2024-25 it is anticipated that £2.0m (net) will be used to Maintain the £10m contribution towards front line services.

Growth items

- 7.6 All service committees have reviewed and approved the growth bids relating to their services and the Corporate Policy & Resources Committee will be authorising same at their meeting on 19 February 2024. and these are fully reflected in the Detailed Budget report in Appendix 1.
- 7.7 Additional spending pressures or reduced income streams totalling £2.6m have been included in the budget, offset by £0.37m of funding.
- 7.8 The evaluation and approval of growth bids received from services have been conducted by each Committee 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 because of a specific statutory requirement.
 - (f) Additional costs of service provision
- 7.9 Officers are aware that there are some major discussions be held with a major employer in the Borough with a view to upgrading their current

premises, it is the early stage of negotiations and the Asset portfolio Working Group have been informed. Early cost estimates indicate that these works could cost between £1.5-2.0m upfront costs but associated with an increased rental stream, and are likely to impact on the revenue budget, if and when approved by Council.

- 7.10 Once the full details are available, Officers will be looking to fund these works, through internal borrowings, if capital related expenditure, or by reprogramming the existing planned works or use of the Sinking Fund if these costs are deemed to revenue in nature, to reduce the impact on front line services.

Savings & Additional Income

- 7.11 In total savings of approximately £2.1m have been found and this was mainly due to an exercise carried out to remove redundant codes from the budgets.

7.12 Precepts

- 7.13 Surrey County Council at its meeting on 6 February set a Band D Council tax of £1758.60 representing a 4.99% increase and Surrey Police at its tax setting meeting on the 2 February set a band D Council tax of £323.57 representing a £13 increase on Band D representing a 4.2% increase.

7.14 Medium Term Financial Plan

- 7.15 Within the detailed budget report, officers have included the figures for 2025-26 to 2027-28 and these figures represent the expected outturn for the MTFP, as based on the information above, with the projected deficits highlighted in 2.20 above.

8. Options analysis and proposal

- 8.1 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 2024-25 by 2.90%. 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 a below inflation increase and is necessary to protect the Council's tax base and its ability to balance its Budget and provide services for its residents.

9. Financial implications

- 9.1 Addressed in the body of the report.

10. Other considerations

- 10.1 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

- 10.2 In the exceptionally challenging times all Councils are currently facing because of the past impact of the COVID19 pandemic and both the current and future impact of the Cost of Living Crisis and the housing 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 long term delays to its

development properties, now that Council have suspended these projects, pending a review of all possible options, otherwise a further £16.0m of capitalised revenue costs may have to be charged back against the 2024-25 and future years Revenue Budget and this will put services at risk, if this is not dealt with in an orderly fashion by Council. The Council has made its best estimate of the need for additional budget to cover likely additional need to spend on Temporary Accommodation to address increasing demand. This is the key reason why the Social Initiatives Fund reserves has been used to help balance the 2024-25 Budget

- 10.3 Officers, working with our Treasury Management advisers, will need to carefully monitor the movements in interest rates, and how to fund the Leisure Centre once the project is completed, 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.
- 10.4 Given the challenges outlined earlier in the report officers, will continue to monitor collection rates for Council Tax, Business Rates (positively in the last month or so performance on collection of Council Tax has improved), and investment and regeneration assets and Knowle Green Estates Board will monitor rent arrears in residential units, reduce cost, and look to increase income, whilst managing the Council's 105 rental units.
- 10.5 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.
- 10.6 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.
- 10.7 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.
- 10.8 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.
- 10.9 In assessing the robustness of the Council's financial position, we have particularly considered risks with respect to our investment assets and have recently received a useful external experts report highlighting the challenges and opportunities presenting with respect to our investment assets. A key element of our risk mitigation continues to be being focused on ensuring that our future sinking funds reserves balances will be sufficient to meet future demands on them. The future balance projections for the next four years are setting out in the Capital & Revenue Reserves Strategy report considered by Corporate Policy and Resource's Committee.
- 10.10 In assessing the robustness of our budget approach, as S151 Officer and working with senior officers and Councillors we are looking ahead over the next four years. We are anticipating that post the General Election there is likely to be a business rates reset and a "Fair Funding" review and redistribution of grants to councils. We are currently assuming that this will happen in 2026-27 and that Spelthorne and other Surrey Councils will be relative losers. We have on grounds of prudence assumed that this will be a hard reset, whereas it is quite possible that there will be some transitional protection for councils. Spelthorne along with other Surrey Councils has recently been doing a collective exercise to review financial resilience. Whilst this has highlighted the challenges ahead in 2026-27, the work suggests that with our current levels of reserves we are currently in a reasonable position but need to plan for meeting the challenges in 2026-27.
- 10.11 We will be particularly focused in the coming year to firstly ensure that we robustly track delivery of cashable savings built into the budget. Progress will be reported regularly to Councillors. Secondly, we are looking ahead to proactively address the challenges potentially arising in 2026-27 and this will include work focused on better understand options around discretionary and secondary expenditure and commencing a zero based budgeting exercise for 2025-26.
- 10.12 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 2024-25.

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

- 10.13 The above issues, along with the Reserves Policy were considered as part of the Outline Budget report in November and the Capital & Revenue Reserves Strategy report will be reviewed and approved by the Corporate Policy & Resources Committee at their meeting on 19 February The Council's General Fund revenue reserve, which acts as a contingency reserve is currently £2.4m which represents 27.5% of the proposed net budget requirement for 2024-25. We will seek in the coming years to further increase the balance in the General Fund reserve.
- 10.14 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.
- 10.15 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 and housing 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 Capital & Revenue Reserves Policy a recent national benchmarking exercise by LG Improve identified that Spelthorne had at end of 2022-23 the highest ratio of unallocated revenue reserves to net revenue budget of any district or Borough Council in the country.
- 10.16 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. The Government does periodically seek out external expert advice on how its investment portfolio is performing, what are the challenges and risks which need to be addressed. This advice is discussed with councillors, and it is important that the council remains very focused on minimising voids and getting tenants into its investment assets when voids arise.

10.17 A key risk and challenge for the Council over the next few years moving forwards, are the sites it owns which are earmarked for regeneration and housing delivery which will need to achieve balanced outcomes which deliver housing meeting the needs of residents and address concerns of existing residents, and minimise across the portfolio sites net capital losses for the Council. If outcomes on schemes are not delivered, then the accumulated associated capitalised costs have to be charged to the Revenue Budget. The combination of crystallising capitalised costs and exposure to capitalised losses could be significant and require the use of a significant proportion of the Council's reserves to offset. It is therefore important that councillors and officers work collaboratively to identify innovative schemes within the place making and joint venture strategy being led by the Group Head for Assets.

10.18 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 significantly 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 (an average of 2.33%). 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 2026-27, that the Council is at risk of losing rates when the change happens.

10.19 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.

10.20 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.

10.21 It continues to be important that the Council critically reviews its financial management performance, with this in mind a refreshed self-assessment against the CIPFA Financial Management Code will be brought to March Audit Committee. One of the Key messages of the Code is that responsibility for owning effective financial management belongs to the whole senior management team both political and officer.

11. Procurement Implications

11.1 None directly applicable

12. Risk Implications

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

13.1 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 | Use of short-term investments to fund the Leisure Centre project will significantly reduce short term operating cash. |
| PWLB Interest rates, until they fall to below 3% will render projects requiring 80+ loan finance financially unviable. | 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, as the Cost-of-Living Crisis continues, collection rates are forecast to reduce from 97% to 95% in 2024-25. |

| | |
|--|---|
| | Reliance on interest earnings to balance the budget, particularly if Council decides to use short term investment funds to fund the Leisure Centre project. |
| Changes to redistribution of Local Government Funding- now anticipated to happen after the next General Election | Failure to develop a new strategy to deliver the Council's housing delivery programme following the suspension of the direct accessible housing projects, due to reduced volume of units, higher building material costs, labour rate inflation, caused by a shortage of skilled workers, together with high PWLB Interest rates, could see the release of £16m of capitalised development costs to the revenue budget in 2024-25 or years to come. |
| 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 can retain | |
| An increase in the level of voids at our investment properties, followed by a significant number of new tenants entering 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.

14. Legal implications

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

14.2 Councillors are reminded that any amendment motions to change the detailed budget, must be submitted to Committee Services by 1200 hours on Tuesday 20 February.

15. Equality and Diversity

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

16. Sustainability/Climate Change Implications

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

17. Timetable for implementation

17.1 Full Council to approve the budget on 22 February 2024.

Background papers:

2024-25 Reserves Strategy (CPRC)

2024-25 Outline Budget Report (CPRC)

2024-25 Fees & Charges Report (all Committees)

2024-25 Council Tax Base. (CPRC)

Appendices:

Appendix 1 – Detailed budget for 2024-25.

Appendix 2 – Net Expenditure Budget 2024-25 by Committee.

Appendix 3 – General Fund Subjective Analysis.

Appendix 4 – Calculation of Council Tax for 2024-25.

Appendix 5 – Calculation of Council Tax (SBC only) for different valuation bands for 2024-25.

Appendix 6 - Calculation of the total Council Tax (SBC, SCC & SPCC) for different valuation bands for 2024-25.

Appendix 7 – FTE equivalent support provided by SBC to KGE and fully charged to KGE for 2024-25

Appendix 8 – Breakdown of costs by discretionary and mandatory services for each Committee, by Cost centre. based on the 2024-25 detailed budget.

Appendix 9 – Commercial & Regeneration Contribution to front line services for the four years ended 31 March 2028