

## Setting of the Council Budget and Council Tax for 2020/21

### Summary:

This paper sets out the Council's Revenue Budget for 2020/21 together with recommendations for Council Tax. It also includes a 3-year financial forecast together with a strategy to address future financial challenges.

### Wards Affected – All

### Recommendation

The Council is advised to RESOLVE

- (i) to note that
  - a) under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 38,525.86 (Band D Equivalent properties) for the year 2020/21 calculated in accordance with the Local Government Finance Act 1992, as amended;
  - b) expenditure totalling £2,027,000 is being charged directly to reserves;
  - c) £185,000 is a special expense relating to the non-parished area of the Borough;
  - d) the budget includes provision of £200,000 representing a 2% pay increase for all staff;
  - e) the comments in respect of the robustness of the 2020/21 Budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
  - f) the comments in respect of the financial forecast, strategy and future financial sustainability of the Council;
- (ii) that the Budget Requirement for 2020/21 be £14,176,572 as set out at the end of Annex A;
- (iii) that the Council Tax Requirement for the Council's own purposes for 2020/21 be £8,616,693 as set out in Annex A and;
- (iv) that the Council Tax for 2020/21 (excluding special expenses and Parish precepts) be set at £223.66 for a Band D property

***Members are reminded that it is illegal for them to vote on either the Budget or the Council Tax if they are in arrears with their own Council tax or Business Rates. If this is the case, they should indicate that they wish to withdraw from the vote.***

## 1. Resource Implications

- 1.1 This paper sets out the Council's revenue budget for the coming financial year. Councils are legally obliged to set a balanced budget and the budget presented achieves this through a combination of efficiencies, increased returns from investment assets, business rates and increase in Council Tax.
- 1.2 This overall budget has increased compared to last year. This is due to inflationary pressures in areas such as wages and contracted costs together with reductions in income for a number of areas. This has been offset by increases in investment income, use of grants, business rates and reserves. There is also a general savings/income target of £500k which will need to be identified during the year. However, if this is not possible the Council has adequate reserves to cover the shortfall.
- 1.3 The summary budget is included at the end of Annex A and a more detailed set of individual budget for services – the budget book – has been published on the website and is also available in the Member's room.
- 1.4 The Council continues to receive no Revenue Support Grant and central funding, which includes business rates, has fallen by £2.7m in 8 years. This loss, together with inflationary pressures and increasing demand, has been made up by the Council following a strategy of greater efficiency, partnership working, investment in property and income generation rather than cuts to services.
- 1.5 So far this strategy has been reasonably successful but does carry a significant amount of risk. The current pressures on, in particular, retail property purchased for regeneration rather than investment, poses a question as to the sustainability of this income at least in the short term. The financial forecast shows that the Council will have future budget pressures if current services are to be maintained. To address these the Council will need to do a combination of more investment, income generation and efficient working. In the end only a full reorganisation of Local Government in Surrey may have to be considered to deliver the financial sustainability all Councils are seeking.
- 1.6 The Government has stated that Councils will be required to hold a referendum if their Council Tax increase is more than the lesser of 2% or £5. The budget has been prepared on the basis of an increase of £5, the maximum permitted, which represents an increase of 2.29%. This is less than the 2.94% or £6.24 increase last year. It is worth emphasising that the £5 increase is the increase for the Surrey Heath element of the Council Tax bill for *1 year*. The Government assume that all Councils will increase their Council Tax to the maximum when looking at funding and this will be an assumption in the forthcoming "fair funding" review. Both Surrey County Council and the Police have gone for the maximum permitted increases. This will mean that the

Surrey Heath Band D council tax will become £224.66 for a Band D taxpayer for a year.

#### Future Resource Implications

- 1.7 It was expected that the Fair Funding Review and the changes to business rates would be implemented in 2020/21. However the Government has decided to defer both of these changes until 2021/22 and as a result has also deferred the “negative grant” . No details have yet been published as to the impact on a Council by Council basis of the proposed funding changes and so it is difficult to ascertain what the impact on Surrey Heath will be. However it is reasonable to assume that:
- a. any Business Rates growth that we have now will be shared out around the country and;
  - b. More funding is likely to be given to upper tier Councils to cope with social care pressures thereby reducing the funds available for Districts.
- 1.8 Work has been undertaken by a company called LG futures on what they think the implications of both these changes may mean and this has been used on the Financial forecast. This indicates that the amount of Business Rates the Council will get to keep will fall sharply and indeed you could foresee a situation in a few years when Surrey Heath gets to keep no business rates at all.
- 1.9 The Government has already stated that it intends to only pay new homes bonus as a reward for one year. Currently for each year an award is earned it is paid out also in the 3 following years. This change, coupled with need to build 150 houses before you get any bonus, will mean that the Council is unlikely to receive any significant payments after next year. There could also be changes to other grants such as Homelessness, Housing benefit, Admin grants etc. but what these will be is impossible to predict.
- 1.10 The Council is required to prepare a Medium term Financial Forecast so as to demonstrate that it can achieve a balanced budget in the future or that it understands the challenges in delivering one. This forecast, together with the Financial Strategy, has been included as Annex C in this report. The preparation of the forecast this year has been particularly challenging given there is no information on funding beyond 2020/21.
- 1.11 The strategy includes a number of assumptions and these are set out in the paper. The key ones being:
- An estimate as to what future funding will be
  - No reduction in services offered

- Only capital expenditure, and the revenue costs resulting is included if approved by members.
- The redevelopment of the London Road Development has been assumed to be revenue neutral i.e. they will generate sufficient income to cover costs. If this is not the case then this may add or reduce financial and cash flow pressures going forward.
- The revenue cost of the Arena will be *an average* of £88,000 pa although the first year's revenue costs will be significantly higher and have to funded rom reserves

1.12 The financial strategy indicates that there will be an ongoing financial gap as follows:

	2021/22 £000	2022/23 £000	2023/24 £000
<b>Resources</b>	10,561	10,484	10,622
<b>Expenditure</b>	-12,447	-12,794	-13,240
<b>Net position</b>	<u>-1,886</u>	<u>-2,311</u>	<u>-2,618</u>

1.13 The Council has over the years made significant internal efficiency savings and sought to reduce the cost of services through collaboration with other bodies. Rather than cut services the Council has pursued a strategy of increasing income, mainly through investment, and has been successful in meeting these challenges so far. However, the impact of further reduction in funding coupled with the impact of inflation, rising costs and income pressures has meant that the Council has an ongoing funding gap. This will need to be addressed through a combination of further income generating investment, operational efficiencies (which could include closer collaboration with neighbouring councils, agile working, self-serve), increase in charges and, as a last option, service reductions. The Council is in the fortunate position of having significant reserves which it can call upon to allow time for the actions required

## 2. Key Issues

2.1 The level of budget set and the allocation of resources can impact all the Council's services. This report:

- Sets out recommendations for the Budget and Council tax for 2020/21
- Gives details of expected funding including Business Rates and grants for 2020/21
- Includes a financial forecast and strategy showing the financial challenges the Council faces in the future.

2.2 The 2020/21 budget has been built up from individual service budgets that are shown in detail in the budget book. Where possible inflationary

pressures have been absorbed and a 2% increase for pay has also been included.

- 2.3 Government funding in the form of business rates and New Homes Bonus has been based on the provisional settlement announced on the 20th December 2019. This was confirmed on the January 2020.
- 2.4 Surrey Heath has invested money in property over the last 3 years that is budgeted to contribute £1.4m, after borrowing costs and loan repayments, to support Council services. This represents roughly 50% of the funding that Surrey Heath has lost from Government in the last 10 years.
- 2.5 The Council has limited capital receipts so capital expenditure can only be funded by grants or loans. For each £1m borrowed roughly, £38k is required in revenue to service it. This needs to come from new income or savings elsewhere in the budget. The Council has included £2.2m in this year's budget to provide for debt repayment as required by statute.
- 2.6 The Council maintains a number of earmarked reserves and provisions. All reserves and provisions are considered appropriate and supportive of future expenditure requirements. Revenue Reserves are projected to be around £35m at the 31st March 2020. Some of these reserves are needed for future committed expenditure, such as SANGS, but there is also £25m of non-earmarked reserves that are used to deal with the financial risks around commercial property and interest rates as well as the potential budgetary funding gap. Included within this budget is expenditure totalling £1.5m which has been charged to reserves.
- 2.7 The General Fund reserve, which is the Council's contingency fund, needs to be sufficient to deal with any unexpected expenditure. Provided Council Tax is increased as predicted and the budget delivered then the General Fund should be at least £2.0m at the 31st March 2020. A risk calculation, attached as Annex B indicates that a minimum balance of £2m is needed to provide financial cover for day to day cash flow and any financial emergencies which may occur during the financial year.
- 2.8 A number of fees and charges have been increased and have been approved in accordance with the Financial Regulations. These changes are reflected within the Budget.
- 2.9 As the SQ business plan was not available, it has been assumed within the budget that the income received from the JPUT (£3.789m) will remain stable. Were this not to be the case this would be an additional budget pressure during the year that would need to be covered from savings, additional income or reserves.
- 2.10 The budget assumes that there will be no revenue costs from either the Leisure centre redevelopment or the LRB project in the financial year.

2.11 The financial strategy, included as Annex C, sets out the predicted financial challenges that the Council faces and sets out ways that these can be addressed. It is the responsibility of the Section 151 Officer to ensure that the budget remains balanced and therefore the financial strategy is an important document in identifying potential future issues.

### **Robustness of the 2020/21 Budget**

2.12 The Local Government Act requires the Council's Chief Financial Officer to report to Council upon:

- The robustness of the estimates made for the purposes of the calculation of the Council tax requirement; and
- The adequacy of the proposed financial reserves

2.13 CIPFA has published its draft resilience index for all local Councils and the Section 151 officers are to have regard for this when preparing a view on the robustness of the budget. The results for Surrey Heath (and 3 near neighbours) are shown in the table below:

<b>Indicator</b>	<b>Minimum All Districts</b>	<b>Surrey Heath</b>	<b>Runnymede</b>	<b>Rushmoor</b>	<b>Woking</b>	<b>Maximum All Districts</b>
Growth above Baseline	-129.00	146.00%	176.00%	111.00%	81.00%	287.00%
Council Tax Requirement	36.95%	100.00%	81.28%	75.40%	78.22%	100.00%
Fees and Charges to Service Expenditure Ratio	1.58%	42.50%	16.09%	32.11%	70.32%	70.32%
Gross External debt	£0k	£174,978k	£571,292k	£64,043k	£1,212,343k	£1,212,343k
Interest payable to Net Revenue Expenditure	-7.13%	32.05%	149.48%	2.58%	195.5%	525.04%
Change in Reserves	-51.16%	53.81%	33.37%	42.28%	27.83%	490.83%
Level of reserves	23.28%	300.00%	204.81%	172.59%	225.08%	300.00%
Reserves sustainability Measure	2.86	100.00	100.00	100.00	100.00	100.00

2.14 An explanation of the indicators are as follows:

#### Growth above the baseline

This measures the growth in business rates over the baseline. Surrey Heath's has risen and this is seen as a risk since this money may be lost when business rates are rebased. Whilst this is a risk the higher

the indicator is the more successful the local economy is compared to other areas

### Council Tax Requirement

This measures how reliant you are on Council Tax to pay for services (rather than grants). A high value is good as Council Tax income can be relied upon but grants cannot. Surrey Heath is at the top end for this indicator implying Council tax is over 100% of net expenditure – this is not the case so there is probably a flaw in the data

### Fees and Charges to Service Expenditure

This indicator is meant to show the reliance on fees and charges to pay for services. A high value is considered to be good since it minimises reliance on Government funding. SHBC are in the better end from this indicator.

### Gross External Debt

Surrey Heath's debt is higher than many Districts but far lower than our near neighbours.

### Interest Payable to net revenue expenditure

This indicator measures how the interest you pay is in relation to your net expenditure budget. The higher the number the more risk. Due to the level of debt Surrey Heath has higher interest payments and therefore a higher %age – however our near neighbours are higher still. What this does not take account of is any income you are generating because of purchasing assets with debt and so is not that useful.

### Change in Reserves

This shows how much reserves have changed in the year. The higher the number the larger the increase in reserves.

### Level of Reserves

This is a measure of the level of reserves against net expenditure. The highest measure given is 300% although many Councils, including SHBC, have more than this. In fact, in Surrey Mole Valley and Tandridge only have scores of 109%

### Reserves Sustainability Measure

This is how sustainable your reserves are and is an early indicator of financial issues. It measures the current level of reserves against the average change over the last 3 years. A score of 100 means that reserves have increased. As can be seen our neighbours are similar to ourselves but Tandridge and Mole Valley both have scores of 4.07

indicating that their reserves have reduced significantly over the last 3 years.

- 2.15 Hence overall the Council would appear to be in a strong financial position going forward on the basis of CIPFA's indicators and at the moment there is no reason for concern. The level of reserves is such that any adverse impacts can be managed without directly impacting services at least for the short to medium term. A list of reserves is attached as Annex D
- 2.16 The Council's Chief Financial Officer confirms he is satisfied that the preparation of the 2020/21 estimates has been undertaken with rigour and due diligence and provides the appropriate level of resources to meet forecast service requirements. He also reports that the Council's Reserves, Provisions and the General Fund Working Balance, supplemented by the Revenue Capital Reserves are at such levels to meet all known future expenditure requirements and fund any unforeseen or urgent spending which may arise.
- 2.17 The Chief Financial Officer would like to draw attention to:
- the risks within the Budget particularly around the reliance and volatility of income to fund services and;
  - the continuing need to make further savings and increase income, as evidenced by the Medium Term Financial Forecast, if services are to be maintained and the Council remain financially sustainable into the future.

### **3. Options**

- 3.1 Members have the option of rejecting or amending the budget and/or Council Tax increase. However, any changes must result in the budget remains balanced otherwise it will not be legal and hence cannot be approved.

### **4. Proposals**

- 4.1 It is proposed that the Council NOTES:
- a) that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 38,525.86 (Band D Equivalent properties) for the year 2020/21 calculated in accordance with the Local Government Finance Act 1992, as amended;
  - b) that expenditure totalling £2,027,000 is being charged directly to reserves;
  - c) that £185,000 is a special expense relating to the non-parished area of the Borough;



- d) That the budget includes provision of £200,000 representing a 2% pay increase for all staff;
- e) the comments in respect of the robustness of the 2020/21 Budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
- f) the comments in respect of the financial forecast, strategy and future financial sustainability of the Council;

4.2 It is proposed that the Council RESOLVES:

- g) that the Budget Requirement for 2020/21 be £14,176,572 as set out at the end of Annex A;
- h) that the Council Tax Requirement for the Council's own purposes for 2020/21 be £8,616,693 as set out in Annex A and;
- i) that the Council Tax for 2020/21 (excluding special expenses and Parish precepts) be set at £223.66 for a Band D property

## **5. Supporting Information**

5.1 This is included within the annexes to this paper.

## **6. Corporate Objectives And Key Priorities**

6.1 The budget underpins all of the Corporate Objectives and Key Priorities.

## **7. Legal Issues**

7.1 The Council has a statutory duty to set a balanced Budget. The Budget, which is approved by Full Council, will form part of the Council's Budget and Policy Framework. With only a very few exceptions, all decisions of the Executive, Council and Officers must be taken in accordance with the Council's Budget and Policy Framework.

7.2 The Council has a duty to appoint an officer with specific responsibility for the proper administration of its financial affairs. At Surrey Heath Borough Council, this officer is the Executive Head of Finance ("Section 151 Officer"). When making recommendations for the Budget, the Council's Section 151 Officer must report on both the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council's Section 151 Officer has a duty to make a formal report - section 114 report (to full Council and to the external auditor) if it appears to him that the expenditure or proposed expenditure of the Council is likely to exceed the resources available to it to meet that expenditure.

- 7.3 It is illegal for Members to take part in the setting of the Council Tax or budget if they are themselves in arrears with either Council Tax or Business Rates. Whilst checks are made by the Revenues department it is the responsibility of each member to ensure that they do not breach this law and hence withdraw from the vote if applicable

## **8. Sustainability**

- 8.1 The Budget, setting of Council Tax and financial strategy underpin the Councils ongoing financial sustainability.

## **9. Risk Management**

- 9.1 There are a number of significant financial risks in relation to the budget as follows. These are as follows:

### National economy

- 9.2 The uncertainty over Brexit coupled with inflation could have a big impact on the Council's budget. Each 1% increase in interest rates adds over £1m to borrowing costs and similarly a 10% cut in retail rental values would take £500k out of the Councils retail income. Although a prudent view has been taken based on professional advice, the performance of the retail sector and its impact on property values is a particular continues to be a cause for concern, at least for the short term, as the Council has invested so heavily in this sector to deliver its regeneration aspirations. Similarly a downturn in the housing market could impact planning fees and housing development.
- 9.3 Inflation, in particular wages growth, has contributed to budget growth during the year and continues to be a concern. If costs were to rise even more quickly this could also put strain on the budget. It should also be remembered that these factors may also impact our residents and businesses and therefore impact their ability to pay their Council Tax and Business Rates.

### Salaries

- 9.4 The salary budget has assumed a budgeted pay rise of 2.0%, which has been agreed with staff, in order to bring the Council in to line with other employers. The budget also assumes a 4% vacancy margin for staff turnover during the year.

### Surrey County Council

- 9.5 The Council still receives grants from Surrey CC to support a number of its services. There is a risk that these remaining grants may not be paid in the future given the financial challenges in Surrey CC and therefore the cost of these services would then fall on the Council. If in the future Surrey County Council was unable to deliver a balanced

budget this could lead to a full reorganisation of local Government within Surrey.

### Financial Strategy

- 9.6 There are a number of financial risks within the forecast which are explored in more detail in the document itself. These primarily are around assumptions in respect of inflation, future funding, interest rates etc. Any change in these assumptions does have a major impact on the forecast going forward and the challenges it presents.

### Property Income

- 9.7 The budget includes a prudent estimate of property income for 2020/21 based on professional advice. With respect to the SQ the new business plan was not available at the time the budget was set and so the budget assumes that the income will remain the same as last year – this may not be the case. Whilst the Council is dependent on property income to fund services it is by nature volatile and so subject to rises and falls. The Council does hold reserves to manage these fluctuations over the short term but it does remain a risk

## **10. Equalities Impact**

- 10.1 The Council recognises that where budgetary proposals are likely to have a significant impact on Council policies or service provision, such changes may have a disproportionate impact on particular sectors or groups within the population. It is thus important to conduct an assessment of such impact, in line with the Council's commitments as set out in our Corporate Equality Plan, and in compliance with our statutory equality duties.
- 10.2 Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council is thus conducting Equality Impact Assessments (EIA) of these proposals. EIAs are all about considering how such proposals may impact, either positively or negatively, on different sectors of the population in different ways. The purpose of such assessments is to;
- Identify whether the proposals are likely to have a disproportionate impact on any particular group within the population;
  - whether such an impact is positive or negative; and
  - whether such an impact might constitute unlawful discrimination.
- 10.3 Where disproportionate negative impact and/or unlawful impact are identified, the assessment provides a means for the Council to take appropriate steps to either avoid such an impact or take appropriate action to mitigate it.

## **11. PR And Marketing**

- 11.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. It is important that the public is informed as to how little Business rates the borough receives compared to what it collects from local ratepayers.

## **12. Officer Comments**

### Conclusion

- 12.1 This year the Council is yet again able to present a balanced budget without having to reduce services. Indeed in some areas, such as Homelessness have been enhanced. The Council has taken on some of the costs of Family Support previously paid by Surrey CC, and has increased the support it gives to community groups. However, there remains clouds on the horizon. The level of income derived from property is vital but remains volatile, costs continue to rise, in particular wages, as the council has to compete for staff with the wider economy, and finally there is the big unknown as to the level of Government support – the only certainty being that it will be a lot less.
- 12.2 In the recent past the Council took a decision that rather than cut services it would embark on a strategy of income generation through investment and charges and greater efficiency. This has been successful in that, unlike a number of other Councils, no services have been cut. That said the strategy has only been implemented in part. Property has been purchased to generate an income and indeed those investments purchased primarily for income have performed well. However, income from property purchased for regeneration continues to be a challenge and affects the whole portfolio. There has been a reluctance to increase or introduce new charges despite the fact that the income could be used to support services. Steps have been taken to deliver greater efficiency but full agile working or more in depth partnering arrangements with other Councils are still difficult to progress.
- 12.3 The challenges presented on the financial forecast going forward are not entirely of the Council's making – they arise from the anticipated impact of Government Policy and the economy in general. That said they are the council's problem to resolve. The good thing is that there are clearly some further opportunities to be grasped in terms of income, charges and efficiency which can address these issues without impacting services.
- 12.4 However, none of these actions comes without risk – and indeed the risks can be significant. That said a risk free approach would involve reducing the level of expenditure to the level of resources predicted to be available. This would naturally mean some services would have to be curtailed or reduced but the level of risk exposure, from say property rents, would not be increased from its current level.

- 12.5 As the CIPFA resilience index shows the Council is in a fortunate position that its finances are sound and reserves in a healthy position. This enables the Council to manage some risk and to buy time whilst new initiatives to generate income or invest to drive efficiency are pursued.
- 12.6 In an ideal world Councils would be adequately funded through taxation for the services they provide. Ultimately, this will only be possible through a reorganisation of Local Government in Surrey. However, this is not likely to be the case in the foreseeable future and so Surrey Heath will need to continue to be bold and take control of its own destiny after taking account of whatever risks and opportunities this may give rise to. Only this will ensure that the services that are valued by residents have a chance of continuing to be delivered.
- 12.7 Members are therefore urged to grasp all income generating and efficiency opportunities as they arise, however unpalatable they may seem, and this includes increasing Council Tax by the maximum amount permitted without a referendum.

<b>Annexes</b>	<b>A - 2020/21 Budget B - Adequacy of General Fund C - Financial Strategy 2021/22-2023/24 D – Revenue and Capital Reserves</b>
<b>Background Papers</b>	<b>2020/21 Budget Book</b>
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## **ANNEX A**

### **Council Tax and Revenue Budget 2020/21**

#### **Introduction**

1. The Executive considered the Budget as outlined in this annexe on the 18th February 2020 and, whilst recommending the Budget, decided to reserve its position on Council Tax for this meeting. Only Full Council can set the Budget and Council Tax. This paper sets out the information required to enable Council to make that decision and support the recommendation made.
2. The complete budget is included at the end of this Annex. However in order to aid members understanding it has been broken down in to various sections and these are examined in turn.

#### **Net Cost of Services**

3. Each service completes a detailed budget page for every activity it delivers. These are available in the Budget Book 2020/21 which has been placed on the website and in the members room. The individual budget pages are then added together to give the total for each service.
4. In order to get to the net cost of services the following adjustments are made:
  - A staff vacancy margin of 4% is deducted to represent staff turnover in the year;
  - The “minimum revenue payment” or MRP represents the statutory amount of debt the council must repay/set aside. Interest is charged directly to services;
  - Internal assets charges (or depreciation) which has been charged to services is reversed out as by statute this is not allowed to be charged to the General Fund and taxpayers.
5. The table below shows the breakdown of the net cost of services and notes have been provided on the key changes in service budgets compared to last year.

<b>NET COST OF SERVICES</b>			
	<b>2019/20</b>	<b>2020/21</b>	<b>Variance</b>
	<b>Budget</b>	<b>Budget</b>	
	<b>£</b>	<b>£</b>	
Business	961,515	1,167,225	205,710
Community	5,029,957	4,887,728	-142,229
Corporate	1,851,855	1,771,732	-80,123
Finance	1,969,280	1,880,424	-88,856
Legal and Property	-480,401	-899,225	-418,824
Investment and development	-852,389	-788,200	64,189
Regulatory	2,139,019	2,532,972	393,953
Transformation	3,420,756	3,786,843	366,087
	<b>14,039,592</b>	<b>14,339,499</b>	<b>299,907</b>
Add: Minimum Revenue Payment	2,014,000	2,213,000	199,000
Internal asset charges reversed	-2,625,700	-2,105,870	519,830
<b>NET COST OF SERVICES</b>	<b>13,427,892</b>	<b>14,446,629</b>	<b>1,018,737</b>

Business - £206k growth

6. The service has suffered from reductions in income from parking due to reductions in footfall across the town.

Community - £142k saving

7. Growth in the service has been offset by an anticipated increase in garden waste charges to be implemented over the year.

Corporate - £80k saving

8. Most of the saving is due to a budget reduction in elections which are not required in 2020/21.

Finance - £88k saving

9. This relates to a reduction in salaries costs coupled with a recharge for staff time to Joint Waste and a change in the vacancy margin

Legal and Property - £418k saving

10. Income from a new property, Theta, has been offset in part by void periods at Albany Park, which have been charged to the budget rather than reserves. In addition the removal of Ashwood House from rating, due to its current condition, has resulted in a £233k saving. However there has been growth of £606k to reflect the expected vacant period following the ending of a tenancy at Albany Park of which £500k has been charged to reserves.

Investment and Development – £64k increase

11. No change has been made for the SQ as the new business plan has not been finalised as yet. Early indications are however that anticipated income for 2020/21 will be less than that for 2019/20 resulting in a budget

pressure arising during the year which may need to be addressed. This is as a result of a large number of CVAs during the year and tenants reducing rents. The loss of rent from House of Fraser is being charged to reserves and there has been a small rise in interest costs.

#### Regulatory - £393k growth

12. £370k of the increase is due to additional depreciation being charged on Disabled Facilities Grants (due to a larger grant allocation\_ which is reversed out before the budget requirement anyway. However, there have also been increases in wages costs as well as growth in Family Support which was agreed by members earlier in the year.

#### Transformation - £366k growth

13. £40k relates to an increase in grant funding to community groups and the rest for increases in wages costs, ICT licences and depreciation
14. A budget book which includes a detailed for every function and service is published on the Council's website.
15. Although there is no in-year savings target this year the Council will need to continue to drive efficiencies and deliver more income if it is to meet the financial challenges of the future or indeed to cover an shortfalls in this budget year that may arise.

#### Contribution to the Budget from investment property

16. The Council has made substantial property investments over the last few years without which it would have been impossible to deliver a balanced budget. This is budgeted to contribute £1.4m to the 2020/21 budget after interest and loan repayments. (subject to any changes arising from the SQ business plan which has not being included within this budget as it has not been completed)

Property Investment contribution to General fund 2020/21										
	Albany	st Georges	The SQ	Trade city	Vulcan way	Theta	London Rd	Ashwood	Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Rent/Dividends	678	553	5,492	616	816	920	77	113		9,265
Property costs	-94	-45	-1,278	-20	-20	-170	-17	-83		-1,727
Professional costs	-125	-41	-428				0	-36		-630
	-219	-86	-1,706	-20	-20	-170	-17	-119		-2,357
Profit before int	459	467	3,786	596	796	750	60	-6		6,908
Interest costs	-306	-254	-2,131	-253	-258	-279	0	-198		-3,679
Profit after int	153	213	1,655	343	538	471	60	-204		3,229
MRP	-161	-37	-1,149	-132	-126	-146	0	-55		-1,806
	-8	176	506	211	412	325	60	-259		1,423

17. Although there are risks in property investment in that rentals and investment values can fall it is clear that without this investment being



made services would have had to be cut or stopped as a result of funding reductions. It should be noted that the £1.4m cash contribution represents just under half the Government grant the Council has lost over the past years.

18. A distinction also needs to be made between property purchased primarily for Investment (although it may maintain employment sites in the borough) and that bought primarily for regeneration. The returns from property purchased for regeneration will be much lower and volatile than those from property for Investment. This risk was accepted when these properties were purchased in order for the Council to advance its regeneration aspirations. That said the pressures that retail is currently under and the continued reduction in income from the SQ presents the Council with the opportunity to rethink whether there should be a reduction in retail space or a redevelopment of part of the centre for residential. The Council does maintain reserves to cover most property risks in the short term; however, this is to enable further action to be taken.
19. Under the Prudential Regulations those Councils with borrowings must make an annual charge to revenue, called the minimum revenue payment (MRP), to ensure at the end of the life of the asset funded by debt the Council will have repaid, or will have the funds set aside to repay, any loans it has on that asset. Councils are prohibited from relying on increases in asset values over time to repay debt. In the 2020/21 budget £2,213,000 has been charged to revenue in accordance with the Council's MRP policy for current and future debt repayment – this is an increase from the £1.3m charged last year. This payment not only covers debts incurred for property purchased but also loans taken out to fund other assets such as refuse collection vehicles and capital improvements.
20. Under accounting rules the Council is not permitted to charge “asset Charges “or depreciation as it is commonly known to the budget. Hence although these costs are charged to services the impact of this is reversed out before the Budget requirement is calculated

### **Surrey Heath Borough Council Tax Requirement**

21. The “Net Cost of Services” is not the amount Council Tax payers actually pay. Deductions are made for other sources of income such as grants, taxes and interest to come down to the “Council Tax Requirement” which represents the amount Council tax payers will be asked to fund. This is summarised in the table below:

<b>COUNCIL TAX REQUIREMENT 2020/21</b>			
	<b>2019/20</b>		<b>2020/21</b>
	<b>£</b>		<b>£</b>
<b>NET COST OF SERVICES</b>	13,427,892		14,446,629
Less: External Interest earned	-140,000		-140,000
Less: Internal Interest earned	-150,000		-150,000
Add: Contribution to Parishes	19,943		19,943
<b>BUDGET REQUIREMENT</b>	<b>13,157,835</b>		<b>14,176,572</b>
Less: Collection Fund Surplus	-116,500		-169,500
Less: Business Rates baseline	-1,543,240		-1,568,384
Less: Additional Business Rates	-950,000		-1,100,000
Less: New Homes Bonus	-521,613		-909,995
Add: Tfr to Reserves	521,613		400,000
Less: Funding from Reserves	-2,042,116		-2,027,000
Add: Parish Precepts	587,834		602,831
<b>COUNCIL TAX REQUIREMENT</b>	<b>9,093,813</b>		<b>9,404,524</b>
Less: Special Expenses	-185,000		-185,000
Less: Parish Precepts	-587,834		-602,831
<b>OWN COUNCIL TAX REQUIREMENT</b>	<b>8,320,979</b>		<b>8,616,693</b>
<i>Band D equivalent Properties</i>	<i>38,054.42</i>		<i>38,525.86</i>
<i>Base Council Tax per Band D property</i>	<b>£218.66</b>		<b>£223.66</b>

22. The main changes between the “Net cost of Services” and the “Council Tax Requirements” are as follows:

#### Investment Income

23. The Council holds an average of £10m in investments externally and this is budgeted to earn £140k in interest over the year. This figure of £10m is significantly less than the level of reserves the Council holds because on the advice of the Council’s treasury advisors some investments have been cashed in and “lent internally” to purchase assets rather than using external debt. As services pay the full interest cost on loans whether they are funded internally or externally an adjustment has been made to represent the interest foregone on the internal borrowing

#### Tax Base, Parish Support and Collection Fund

24. The tax base has risen overall during the year due to the construction of new properties. This can be seen in the table below:

#### **Council Tax Base**

<b>2019/20</b>	<b>2020/21</b>	<b>Change</b>
----------------	----------------	---------------

Bisley	1,640.07	1,676.50	36.43
Chobham	2,005.58	2,058.83	53.25
Frimley and Camberley	24,103.84	24,283.22	179.38
West End	2,189.73	2,313.69	123.96
Windlesham	8,115.20	8,193.62	78.42
<b>Total</b>	<b>38,054.42</b>	<b>38,525.86</b>	<b>471.44</b>

25. The increase in the tax base alone will generate an additional £106k in income each year.
26. The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2018/19 despite the fact that it is no longer funded by central government. This is shown in the table below:

#### **Support for Parishes due to the LCTSS**

<b>Parish/Town</b>	<b>Support given in 2019/20 &amp; 2020/21</b>
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
<b>TOTAL</b>	<b>19,943.44</b>

27. Due to the Revenues team working hard to ensure that all money due to the Council for council tax is collected it is predicted that the collection fund will be in surplus at the end of 2019/20. The Section 151 officer has therefore determined that a surplus of £1,500,000 can be declared for the year. Of this £1,128,000 will be paid to Surrey County Council, £202,500 to the Police and the remaining £169,500 to the borough. This will be used to support the budget for 2020/21

#### New Homes Bonus

28. In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and provided an additional payment for any affordable units built. This proved to be so successful in delivering houses that over successive years the Government has watered down the incentive to save money. This has moved the scheme from one which paid a fixed reward for every additional house built for each of 6 years to one which only pays the incentive for 4 years and assumes that the first 0.4% increase in house numbers (171 for Surrey Heath) would have been built anyway and therefore do not require a reward.

29. For 2020/21 it is anticipated that Surrey Heath will receive £909,995 in New Homes Bonus. As this is not new money but assumed by Government to be used to support services £500,000 of this is being used this year to manage increases in expenditure with the remainder being put in to reserves. Future payments are likely to decrease sharply, thereby increasing budget pressures, as the Government has signalled that in future it will only pay the incentive for 1 year rather than 4.

30. New Homes Bonus is not “new” money and instead comes out of redistributed local authority funds – mainly by top slicing business rates and the Government has assumed that it is given to support on-going services rather than to offset the impact of development. For this reason, it has been included in the Governments calculation of “Core Spending Power” which lists the resources all Councils have to deliver services, and why some of it has been used to support this year’s budget.

#### Transfers to reserves

31. As not all of the New Homes Bonus is required to support the budget £400,000 of it will be transferred to reserves.

#### Transfers from Reserves

32. As in previous years £1,527,000 of expenditure is funded directly from reserves as follows:

- £75,000 of expenditure relating to community grants included in the budget is being funded from the community fund.
- £250,000 of costs to support the work of organisational transformation, economic growth and town centre is being financed from the Capital Reserve as this will generate additional income/savings in the future. This may become an additional budget pressure going forward;
- £1,500,000 from the rent and interest equalisation reserve to fund the temporary shortfall in rents and;
- £202,000 for the Arena during its construction

#### Funding from Business Rates

33. The Council receives a proportion of money collected from local businesses. In 2020/21 the “standard” 50% scheme applies which means that for every £1 collected above the baseline 50p goes to Government, 10p to Surrey CC, 20p for a safety net for less successful areas and 20p remains in Surrey Heath.

34. It was anticipated that 2020/21 would mark the first year of a new 75% scheme with rates being rebased to reflect the fair funding review –however this has been deferred to 2021/22. It is likely that if it is implemented in 2021/22 this could result in a significant loss of funding to the Council. The implications of this have been explored in the Medium Term Financial Strategy which is appended to this report.
35. What is important to remember is that whether the Council is in a 50%, 75% or 100% scheme this does not denote the % of TOTAL business rates retained in that area. The %ages only apply to gains over a pre-set baseline. The bulk of Business Rates collected in Surrey Heath, at least 96%, is redistributed to the County and around the country rather than remaining in the Borough.
36. The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

**Total Business Rates and Council Share  
2019/20 to 2020/21**

	<b>2018/19 Final £000</b>	<b>2019/20 Final £000</b>	<b>2020/21 Final £000</b>
Baseline - assumed minimum collected	33,420	34,798	35,365
Less: 50% to Government		-17,399	-17,683
Less: 10% to SCC		-3,480	-3,537
Less: 70% to SCC	23,394		
Share for SHBC	10,026	13,919	14,146
Less Fixed Tariff	-8,517	-12,376	-12,578
Business Rates for SHBC	1,509	1,543	1,568
%age share	4.5%	4.4%	4.4%
Safety Net	1,463	1,426	1,451

37. The above table reflects the baseline figures released in settlement for 2020/21 and does not include any growth in business rates. LG futures have estimated that in reality Surrey Heath will received £2.8m in total and so an additional £1.1m has been included within the budget for this year. However, this growth may be lost in future years if the business rates system is reset.
38. The Council has worked hard to grow the local economy and support businesses but the shortage of development land makes it challenging to actually build new business premises. This shortage, coupled with permitted

development rights which permit the conversion of offices to housing without planning permission, has meant that the Council's business rates tax base has remained pretty static. In future the extension of PD rights to shops and potential other business premises could erode the Council's business rate base even further.

#### Local Government Settlement 2020/21

39. The settlement, which was announced on December 20th 2019, confirmed that Surrey Heath would again receive no revenue support grant in 2020/21. It is worth remembering that over the last 10 years Surrey Heath has lost £2.7m in Government funding (Business Rates and central grant) and that some of this has been made up by efficiencies and property income so as to avoid making cuts in services.

#### Council Tax

40. The Minister has confirmed that there will be a cap on Council Tax increases as follows:
- Upper Tier less than 2.00% - For those Councils with Adult Social Care responsibilities an additional 2% can be charged.
  - Lower tier - Less than 2% or £5 - whichever is the higher
  - £10 for Police and crime commissioners
  - No cap for Parishes and towns
41. Any Council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase at its own expense.
42. The budget and council tax recommendations have been prepared on the assumption that Council Tax will be increased by the maximum allowed, however members can decide on any amount up to this level. Members are reminded though that it is a legal requirement that the budget must be balanced and so any change to Council tax levied must be covered elsewhere within the budget or added to the in year savings required.
43. The current Surrey Heath band D Council Tax is £218.66. Taking account of the increase proposed the new Band D tax will be £223.66.
44. Surrey County Council and Police and Crime Commissioner have already agreed to increase their Council Tax by the maximum allowed and so the impact on a Band D taxpayer, including the proposed Surrey Heath increase is shown below. It is worth noting that even with the increase the Surrey Heath precept only represents 11.2% of the total bill.

	2020/21	2019/20	£ change	% change
	£	£		
Surrey Heath Borough Council	223.66	218.66	5.00	2.95%
Surrey County Council	1,511.46	1,453.50	57.96	3.99%
Surrey Police and Crime Commissioner	270.57	260.57	10.00	3.84%
	<u>2,005.69</u>	<u>1,932.73</u>	<u>72.96</u>	<u>3.77%</u>

*NB: All figures are provisional*

45. Given the challenges around financial and service sustainability the Council faces the Section 151 officer recommends that members increase Council tax this year by the maximum permitted as set out in this paper.

#### Special Expenses and Parish Precepts

46. Special Expenses are charged to reflect the cost of providing certain services to non-parished areas which in parished areas are funded by a parish precept. This charge is billed as a separate item to non-parished areas in a similar way to a precept in parished areas but does however fall within the borough's overall capping limit. Parishes on the other hand are free to set any precept they wish without any risk of Government intervention.

47. The parish precepts and special expenses are shown below:

Parish	2020/21			2019/20			Increase
	Tax Base	Precept	Band D	Tax Base	Precept	Band D	
Bisley	1,676.50	103,894	61.97	1,640.07	100,636	61.36	0.99%
Chobham	2,058.83	81,765	39.71	2,005.58	79,000	39.39	0.82%
West End	2,313.69	107,802	46.59	2,189.73	100,455	45.88	1.56%
Windlesham	8,193.62	309,370	37.76	8,115.20	306,409	37.76	0.00%
<b>Total Parishes</b>	<b>14,242.64</b>	<b>602,831</b>	<b>42.33</b>	<b>13,950.58</b>	<b>586,500</b>	<b>42.04</b>	<b>0.68%</b>
Frimley & Camberley	24,283.22	185,000	7.62	24,103.84	185,000	7.68	-0.74%
	<u>38,525.86</u>	<u>787,831</u>	<u>20.45</u>	<u>38,054.42</u>	<u>771,500</u>	<u>20.27</u>	<u>0.87%</u>

#### **Total Budget**

48. The overall Budget reflecting all of the information above is shown below:

## GENERAL FUND REVENUE ACCOUNT

## 2020/21 SUMMARY BUDGET

	2019/20	2020/21	Variance
	Budget £	Budget £	
Business	961,515	1,167,225	205,710
Community	5,029,957	4,887,728	-142,229
Corporate	1,851,855	1,771,732	-80,123
Finance	1,969,280	1,880,424	-88,856
Legal and Property	-480,401	-899,225	-418,824
Investment and development	-852,389	-788,200	64,189
Regulatory	2,139,019	2,532,972	393,953
Transformation	3,420,756	3,786,843	366,087
	14,039,592	14,339,499	299,907
Add: Minimum Revenue Payment	2,014,000	2,213,000	199,000
Internal asset charges reversed	-2,625,700	-2,105,870	519,830
<b>NET COST OF SERVICES</b>	<b>13,427,892</b>	<b>14,446,629</b>	<b>1,018,737</b>
Less: External Interest earned	-140,000	-140,000	0
Less: Internal Interest earned	-150,000	-150,000	0
Add: Contribution to Parishes	19,943	19,943	0
<b>BUDGET REQUIREMENT</b>	<b>13,157,835</b>	<b>14,176,572</b>	<b>1,018,737</b>
Less: Collection Fund Surplus	-116,500	-169,500	-53,000
Less: Business Rates baseline	-1,543,240	-1,568,384	-25,144
Less: Additional Business Rates	-950,000	-1,100,000	-150,000
Less: New Homes Bonus	-521,613	-909,995	-388,382
Add: Tfr to Reserves	521,613	400,000	-121,613
Less: Funding from Reserves	-2,042,116	-2,027,000	15,116
Add: Parish Precepts	587,834	602,831	14,997
<b>COUNCIL TAX REQUIREMENT</b>	<b>9,093,813</b>	<b>9,404,524</b>	<b>310,711</b>
Less: Special Expenses	-185,000	-185,000	0
Less: Parish Precepts	-587,834	-602,831	-14,997
<b>OWN COUNCIL TAX REQUIREMENT</b>	<b>8,320,979</b>	<b>8,616,693</b>	<b>295,714</b>
<i>Band D equivalent Properties</i>	<i>38,054.42</i>	<i>38,525.86</i>	
<i>Base Council Tax per Band D property</i>	<b>£218.66</b>	<b>£223.66</b>	



## Annex B

<b>GENERAL FUND REVENUE RESERVE</b>						
<b>CALCULATION OF THE MINIMUM REQUIREMENT</b>						
				<b>Calculation Basis</b>		<b>TOTAL</b>
				<b>Base</b>	<b>%</b>	<b>Total</b>
				<b>£000</b>		<b>£000</b>
<b>Provision for cash flow on expenditure Items</b>						
Based on gross General Fund Expenditure				25,000	3%	625
<b>Provision for shortfall in major income budgets</b>						
Arena					3%	0
Building control Fees				312	3%	9
Car Park Income				2,127	5%	106
Community alarms				287	3%	9
Community Transport				173	3%	5
Development Control				580	3%	17
Housing				65	3%	2
Investment Income				3,800	5%	190
Legal				40	3%	1
Licensing				170	3%	5
Local Land charges				230	3%	7
Meals on Wheels				182	3%	5
Older peoples centres				127	3%	4
Parks				480	5%	24
Property Rents				4,102	5%	205
Theatre				1,131	5%	57
Waste and recycling				750	3%	23
				<b>14,556</b>		<b>669</b>
<b>Other Contingencies</b>						
- Major Incident or business recovery						50
Cost of major enquiry						50
- interest changes by 0.5%						500
- Shortfall on Business Rates						100
<b>TOTAL RESERVE REQUIRED</b>						<b>£1,994</b>

**MEDIUM TERM FINANCIAL FORECAST**

Please see attachment

## Revenue and Capital Reserves

	<b>Actual at 31-Mar-19 £000</b>	<b>Estimated Balance 31-Mar-20 £000</b>
<b>Capital Reserves</b>		
Capital Receipts	3,930	2,000
<b>Sub Total Capital Reserves</b>	<b>3,930</b>	<b>2,000</b>
<b>Earmarked Revenue Reserves</b>		
Atrium Public Art	0	0
Affordable housing	1,656	900
Atrium s106	318	318
Blackwater Valley & Developer Conts	87	77
Business Rates Equalisation Fund	4,700	6,300
Chobham Partnership	5	5
CIL Admin and monitoring	313	313
Commuted Sums	472	400
Community Fund	210	160
Crime and Disorder Partnership	65	60
Custom build	72	72
Deepcut Commuted Sums	284	280
Frimley 3G	88	108
Heatherside MUGA	29	27
Insurance	193	193
Interest and rent Equalisation	4,124	4,500
Land Drainage	384	340
new burdens	137	137
Old Dean Toddlers Playground	17	16
One public estate	346	346
Personalisation and Prevention	21	0
Sec 106	199	199
Property Maintenance	1,985	1,600
Remediation	45	45
SAMM	56	56
SANGS	4,078	4,500
Surrey Family Support	79	0
<b>Total Earmarked Revenue Reserves</b>	<b>19,963</b>	<b>20,952</b>
<b>Other Revenue Reserves</b>		
Capital Revenue Reserve	11,008	11,500
General Fund Working Balance	2,663	2,500
<b>Total Other Revenue Reserves</b>	<b>13,671</b>	<b>14,000</b>
<b>TOTAL RESERVES</b>	<b>37,564</b>	<b>36,952</b>