

Portfolio Holder Update: Finance

Summary

To provide a progress report on the Finance Services Portfolio

Portfolio: Finance

Wards Affected: All

Recommendation

The Committee is asked to note the report.

1. Background

1.1 The Finance Portfolio covers the following areas as set out below:

- Finance
- Procurement
- Revenues and Benefits

1.2 Surrey Heath Borough Council had gross service expenditure of c£44m. This is funded by income from investments, charges, grants, Business Rates and Council Tax as set out in the budget paper presented to members in February each year. In addition, we also collect Business Rates and Council Tax on behalf of all preceptors and have also managed a short-term loan portfolio to reduce borrowing costs.

1.3 Government funding to the Council has fallen by £2.7m in cash terms since 2010/11 and the Council has made up the gap by increasing efficiency and generating income through investment. This has meant that despite this reduction in funding coupled with the impact of inflation the Council has been able to maintain its services to residents.

2. Finance Function

The Finance Service

2.1 The finance service has a key role in the delivery of the Council's wider ambitions for borough-wide prosperity as set out in the Corporate Plan:

- Strengthening the Council's financial independence by increasing our own income;
- Working with partners to support our urban and rural economy through strategic development planning and economic growth;
- Supporting local businesses by encouraging economic development and improvements to local transport and other infrastructure;
- Encourage inward investment by promoting Surrey Heath as a great place to live and work;
- Delivering new development within the borough to strengthen the local economy.

- 2.2 The past year has seen more changes to the finance service. The benefits from the Civica financial system upgrade in 2019 have continued to be realised with a significant number of staff now being comfortable in using the system to monitor their budgets and purchase goods and services. Further enhancements took place in summer 2020 with procedures streamlined to generate efficiencies in the service. Two new senior accountants joined the service in early 2020 and their experience and knowledge will enhance the finance service in the years ahead.
- 2.3 The Council's investment in property coupled with Surrey Heath becoming lead authority for joint waste has meant that the service has had to deal with accounting challenges in partnership with colleagues from both waste and property development departments.
- 2.4 The finance service has worked closely with services to assist them with their budget monitoring.
- 2.5 2020 has seen further improvements and challenges for the service. These include:
- Enhancement of the Civica financial system including the introduction of new modules and move into the cloud;
 - Further property purchases and associated accounting challenges.

2020/21 Budget

- 2.6 The mid-year finance report, which is reported elsewhere on tonight's agenda ('Council Finances as at 30 September 2020'), shows that the Council is expected to have a shortfall of income against expenditure of £1.4 million at 31 March 2021 compared to the planned budget agreed in February 2020. The details of the shortfall are set out in Appendix A of that report and summarised in the table below:

	20/21 Budget	20/21 Forecast Outturn	Variance	
	£	£	£	
Finance	1,880,424	2,170,000	290,000	a
Corporate	1,771,732	1,771,650	-82,000	f
Transformation	3,996,718	3,571,000	-426,000	f
Business	654,735	1,294,735	640,000	a
Regulatory	2,326,709	1,953,709	-373,000	f
Investment and Development	-611,201	660,000	1,500,000	a
Legal & Property	-1,619,861	-1,819,861	-200,000	f
Community Services	4,495,988	4,496,988	25,000	a
Total	12,895,244	14,098,221	1,374,000	

- 2.6 The main adverse variances arise from shortfalls in come form Car Parks and the Property Portfolio. offset from some favourable variances in other parts of the Council. The £1.5m income from Property is classed as commercial income and is not covered by the government's income guarantee scheme.
- 2.8 The Council's Medium-Term Financial Forecast anticipates a continuing and growing funding gap likely to be c£2m by the year 2024/25. This is based on several assumptions, particularly regarding Government Funding and Business Rates.

- 2.9 The Council has a good track record of meeting these financial challenges and indeed has a strategy of further efficiency coupled with income generation to meet this challenge. However, if this were not to be successful it may be that cuts to services would be required. That said this is a challenge faced by most Councils and indeed Surrey Heath's position is in fact one of the better placed within Surrey. Ultimately the long-term sustainability of a two-tier system of Local Government in Surrey will need to be addressed if funding continues to be taken away by central government.
- 2.10 Following recent events, the Council's response to the Coronavirus pandemic will be a key priority in the short and longer term. The Council's COVID-19 Hub has been set up to support vulnerable residents who have been affected by the pandemic. The hub has been reaching out and ensuring that any urgent needs are met, including delivering food packages to those who do not have someone who can get shopping or medical supplies for them. The Council has been on the front line in the fight against the virus, delivering Government backed support as well as developing and delivering locally funded support for residents. The Council is working with the voluntary and community sectors to support even more vulnerable residents, including those who are not part of the NHS list but who do not have families or friends to support them.
- 2.11 The Council has made a local Hardship Fund available and is supporting those who need emergency financial support due to COVID19. Meanwhile the Council has strived to continue to deliver core services where possible and all staff have been involved in enabling vital service delivery in this difficult period. It is also a priority for the Council to support businesses and the self-employed through the pandemic, delivering grants to eligible businesses and applying the 2020/21 Business Rate holiday as promised by the Government.
- 2.12 The Council worked with local businesses in Council owned commercial property to aid in the payment of rents, offering flexible payment schemes to help them manage their cash flow.
- 2.13 Due to the timing of the crisis which started to impact in March 2020 the impact on the 2019/20 financial year was minimal but the crisis has had huge financial implications for the Council during the first half of financial year 2020/21 (see report elsewhere on tonight's agenda)., with increased costs in demand for certain services as well as reduced income likely through lower collection of local taxes and especially fees and charges.
- 2.14 Looking forward the Council wishes to continue to deliver on its key priority to develop Camberley Town Centre. This project will depend on the strength of the wider UK economy, in particular the housing and retail markets. Although there has been a national fall in the value of the retail assets which has impacted the Council this is not necessarily an issue since there is no intention to sell these assets in the near future. What is more important is that the income is maintained to cover the loans taken out to fund the purchase of these assets. The Council is doing a good job on its own trying to address the financial challenges it faces and preserving services. It is continuing to pursue key priorities in delivering income and reducing costs. This is being achieved through more partnership working and new technology.

External Context

- 2.15 The effect on the UK from coronavirus, nationally and regionally, has had a major impact on the Council's financial plans.

- 2.16 At the national level, the latest forecast from the Bank of England is that the UK economy will shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The Bank also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.
- 2.17 UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. These are important indicators for future cost pressures on the Council's budget.

Covid Funding from Central Government

- 2.18 So far there have been four 'tranches' of funding for local government (the latest announced in October). The figures for 'All England' and the allocation to Surrey Heath Borough Council were as follows as follows:

	All England LAs (£m)	SHBC (£)
Tranche 1	1,600	27,622
Tranche 2	1,594	879,135
Tranche 3	494	103,693
Tranche 4	919	100,000
	£4,607m	£1,110,450

- 2.19 In addition, On 10 June, The Prime Minister announced a one-off grant of £63 million for 2020/21 for local authorities in England to help those who are struggling to afford food and other essentials due to COVID-19. The funding for Surrey (£788,016) was paid over to Surrey County Council towards the end of July and Government expectation was that this additional grant should be spent within 12 weeks, that is by approximately 31 October.
- 2.20 On 4 August, SCC decided that the most vulnerable residents would benefit most from a partnership approach to the distribution of these funds, building on the existing relationships across the County Council, Borough & District Councils and voluntary, community & faith sector (VCFS) which have been utilised in the joint approach to the response to the pandemic.
- 2.21 The majority of the allocation (£648k) was distributed to the Borough and District Councils to use to target those in need and provide additional grant funding to local food banks and VCFS organisations supporting the purchase and distribution of food, medical supplies and other essential items.
- 2.22 The methodology for the allocation of these funds across the 11 Boroughs and Districts replicated the DEFRA assessment of need (based on population data weighted by the Index of Multiple Deprivation (IMD) for the authority area).
- 2.23 Surrey Heath Borough Council received an allocation of £40,922.

2021/22 Budget and Medium-Term Financial Strategy

- 2.24 Colleagues are currently working on putting the Budget together for the coming year. This will be done in time for presentation to members in February 2021. Despite the challenges in the current year, the Council's financial standing is strong as evidenced by its Steady financial management over many years. Compared to other local authorities the Council holds significant financial reserves, some of which may need

to be applied to support services given significant shortfalls in income against budget since the start of the pandemic in March 2020. Even discounting the impact of Covid, there is an increasing gap between expenditure on services and the funds the Council can raise to pay for them, given increasing demands, complexity of needs and other demographic factors.

- 2.25 The drafting of the 2021/22 budget and the roll-forward of the Council's five-year Medium-Term Financial Strategy both have regard to the continuing impact of the Coronavirus pandemic on Council finances, national funding priorities and the local economy.
- 2.26 Early indications are that there are financial pressures in several areas across the Council. Income is being squeezed and yet costs coupled with demand for services in increasing. This will make budget setting particularly challenging as there is very little new money to spend. As part of the budgeting exercise for 2021/22, members and officers will be utilising Zero Based Budgeting (ZBB) techniques, as agreed at a previous meeting of this Committee. Given the resource intensive nature of ZBB, for financial year 2021/22, the focus of the exercise will be on those services that are particularly reliant of income from fees and charges (e.g., Leisure, Planning). These are priorities in the current financial environment, given the downturn in economic activity and its impact on the local economy. This first tranche of reviews will allow the methodology to be fully tested, provide a valuable analysis of cost drivers in services that need to attract customers, and assist in the repositioning of the Council's Medium-Term Financial strategy. This 'blended' approach will provide member and senior management support to those services most at risk from the current pandemic and its aftermath.
- 2.27 Other actions to achieve a balanced budget for 2021/22 will include:
- (i) Review of Council's pay budget
 - (ii) Review of the level of Council Tax and changes to the tax base
 - (iii) Adjustments for contractually agreed increase in prices
 - (iv) Review of fees & charges
 - (v) Benchmarking with other organisations to identify possible efficiencies
 - (vi) Review of top tier of management
 - (vii) Review of General Fund reserves for possible re-allocation for one-off revenue funding in 2021/22
 - (viii) Adjustments to the Council's Medium-Term Financial Strategy to ensure that any reserves applied in Year 1 (2021/22) will be replenished by the end of the planning period (2025/26)

2.28 The Council will also need to give consideration about the treatment of any overspend/under recovery of income arising at the end of the current financial year (2020/21).

2.29 A key component of the budget will be the Local Government settlement which is usually announced in December. Any impact on Surrey Heath Borough Council from the settlement will be included in the draft accounts before they are presented to members in early 2021.

Capital

2.30 During the year, the Council has made a number of capital acquisitions. These have been reported to members on a quarterly basis. All these purchases have been funded from a combination of capital receipts, grants, revenue, and debt. The budget

for the 2021/22 capital program is being drawn up now and will be presented to members in the new year.

Treasury and Investment

- 2.31 The Council continues to invest surplus funds as well as borrow to fund its acquisitions. At the end of September, the Council had around £23.8m invested and borrowings of £170m. Further details are included in the treasury management report elsewhere on tonight's agenda.

External Audit and Accounts

- 2.32 The Council's draft financial statements for 2019/20 were submitted to our external auditors by the deadline of 31 August 2020 and are published on the Council's website. It is anticipated that BDO will complete their audit in January 2021. At the time of writing there have been no significant issues raised by our auditors.

3 Revenues and Benefits Function

- 3.1 The Revenues and Benefits team is responsible for the billing and collection of Council Tax and Business Rates Borough wide and the collection of the Business Improvement Levy in respect of Camberley Town Centre. The team also assess entitlement to help towards payment of rent and Council Tax.
- 3.2 The team is made up of 19.5 fte staff which includes two full time apprentices. During the early weeks of COVID the team made welfare calls up to 11am each day switching back to their substantive role from 11am.
- 3.3 The Borough has:
- 37,425 domestic properties and the net collectable Council Tax debit to be collected for 2020/21 is £79.1m. We have collected 66.63% (£52.7m) as of 31 October 2020.
 - 2925 Business properties and the net collectable Business Rate debit to be collected for 2020/21 is £22.1m after allowing for the new reliefs introduced by Central Government because of COVID. We have collected 61.73% (£13.6m) as of 31 Oct 2020.
 - In addition to the collection of the Council Tax and Business Rates the team has paid out £15.2m in Small Business and Retail, Leisure and Hospitality (RLH) grants to 1189 businesses, and awarded £16.0m in relief to RLH and £282k to early years providers.
- 3.4 As the Magistrates Court closed on 23 March 2020 we did not issue any statutory reminders for non-payment but rather we issued monthly 'soft reminders' and text messages to remind those who had not paid the correct amount (or not paid anything) that help was available if they were struggling financially. The first statutory reminders were issued in early October.
- 3.5 As a result of the lockdown the Benefits team saw a 298% increase in applications for Council Tax Support.
- 3.6 2562 new claims for Local Council Tax Support were processed between April and September 30th compared to 1234 between April 2019 and 31 March 2020.

- 3.7 In addition to the increase in new claims, 8071 changes for LCTS were processed in the first six months from April 2020 compared to 9951 for the whole of 2019/20.
- 3.8 These claims were processed promptly with average new claims taking 34 days and changes of circumstances 4 days to process. The new claim process allows claimants 28 days to provide information required to allow the claim to be assessed. Even if the claim is assessed on the day the information is provided the number of days can be up to 28. In addition, if the required information is not provided the claim has to be made ineligible and the days to process is still counted as part of the overall average of all claims. Universal Credit is awarded in arrears as this also creates a delay in being able to assess claims as we do need to know the level of Universal Credit award in order to be able to assess the claim.
- 3.9 The Business Improvement District annual bills start from 18 October each year. On 9 October 2020 414 annual bills in respect of 2020/21 were issued so the £217,452 in levy due can be collected.
- 3.10 As we enter another national lockdown the team will now need to administer the local lockdown grants to businesses that are paid in the three-week cycle and there is likely to be an increase in Council Tax Support applications. At the same time the team are in the early stages of the 2021/22 annual billing process for Council Tax and Business Rates, uprating of entitlement to Housing Benefit and Council Tax Support in line with Government increases in benefits and allowances and supporting the external auditors with their enquiries and information requests in respect of the annual billing process and benefits paid in respect during 2019/20.

4 Procurement

- 4.1 This update provides a summary of the procurement activity for the past year (2020). Due to the Covid pandemic and national lockdown, Council Officer's roles were diverted to supporting the Council's response to the pandemic and supporting the community most affected by the pandemic, and as such a number of procurements were delayed. That said, a number of high spend procurements have now been completed or are near to completion.
- 4.2 The table below shows the key procurements undertaken for the Surrey Heath area with a value greater than £50,000.
- 4.3 The Grounds Maintenance Services Contract (placed in 2018) had been having performance difficulties in its first year with the Business Service team and a new procurement has been successfully undertaken to replace the provider who had failed to deliver.
- 4.4 The Cleaning Services contract for the Council's operational buildings was in its extension period and a procurement has been undertaken with a new contract due to signed by the end of November.
- 4.5 The Playground refurbishment project has progressed procurements for 3 further playgrounds - Loman Road, Chobham Road Rec and Watchetts Recreation Ground.

Tender Exercise Name	Service	Procurement Status
Parks and Ground Maintenance Contract	Business	Completed
Playground Refurbishment Projects	Business	Completed
PPM surveys and Asset Register	Property	Contract being agreed
Cleaning Services	Property	Contract being agreed
HR / Payroll system	IT	Contract being agreed
BOX Upgrade	IT	Completed

4.5 Other Surrey Heath wide procurements of a value below £50,000 include:

- i. GIS replacement
- ii. Home Improvement Agency Case Management system
- iii. Homelessness case management system
- iv. Housing Register Database
- v. Express Election Software
- vi. Interim Project Manager London Road Block

4.6 In addition to these procurements, market engagements in the form of Requests for Information (RFI) have been published in Contracts Finder. RFIs enable the customer to seek options for solutions for areas where the specification is either unknown or variable. The RFI enables the market providers to suggest their working solutions and from this the customer can decide the best route with which to proceed the procurement.

4.8 The Council has published RFIs for Flexible Working Spaces and for 45-51 Park Street (the House of Fraser building) in order to find current market opportunities.

Annexes	None.
Background Papers	See report 'Council Finance as at 30 September 2020' elsewhere on tonight's agenda. See 'Annual Report 2019-20 & Half Year 2020-21 Report on Treasury Management' elsewhere on tonight's agenda.
Author/Contact Details	Martin Hone – Interim Executive Head of Finance Martin.hone@surreyheath.gov.uk
Head of Service	Martin Hone - Interim Executive Head of Finance