

## Setting of the Council Budget and Council Tax for 2021/22

### Summary:

This paper sets out the Council's Revenue Budget for 2021/22 together with recommendations for Council Tax

### Portfolio: Finance

Wards Affected: All

### Recommendation

The Council is advised to RESOLVE

- (i) to note that
  - a) under delegated powers the Interim Executive Head of Finance calculated the amount of the Council Tax Base as 38,810.56 (Band D Equivalent properties) for the year 2021/22 calculated in accordance with the Local Government Finance Act 1992, as amended;
  - b) expenditure totalling £300,000 is being charged directly to reserves;
  - c) £187,223 is a special expense relating to the non-parished area of the Borough;
  - d) the comments in respect of the robustness of the 2021/22 Budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
  - e) the comments in respect of the financial forecast, strategy and future financial sustainability of the Council;
- (ii) that the Budget Requirement for 2021/22 be £12,714,998 as set out in the Table in Paragraph 5.1 of Annex A;
- (iii) that the Council Tax Requirement for the Council's own purposes for 2021/22 be £8,874,423 as set out in the Table at Paragraph 10.1 of Annex A and;
- (iv) that the Council Tax for 2021/22 (excluding special expenses and Parish precepts) be set at £228.66 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 There is a legal requirement that the Council can only approve a balanced budget. A balanced budget means that expenditure must equal income. If the budget is not balanced then the Council cannot approve it and therefore Council Tax cannot be set and revenue collected.
- 1.2 In February 2021, the Government announced in the final budget settlement for 2021/22 that Councils will need to hold a referendum if their planned increase in Council Tax is greater than the higher of 1.99% or £5.00 for a Band D property. This budget has been prepared on the assumption that the maximum Council Tax increase (£5.00) within these limits will be approved. The proposed increase generates an additional income to the Council of £194,053 compared to 2020/21. The summary budget is included at Annex A and a more detailed set of individual budgets for services – the budget book – has been published on the website and is available in the Members' room.

## **2. Financial Settlement 2021/22**

- 2.1 The Financial Settlement confirmed in February 2021 only covers financial year 2021/22. The detailed papers arising from the Spending Review included updates on the Fundamental Review of Business Rates and on Funding Reform. The government response to the first part of the Fundamental Review was expected along with the Spending Review, but the papers confirmed that this has been delayed until spring 2021.
- 2.2 There has been no update from Government on Funding Reform, which is still listed as 'delayed', with no revised implementation date proposed. There was confirmation that there would not be a reset for Business Rates (NDR) in 2021/22, given the lack of data to allow baselines to be set, which is reflective of the impact of the pandemic.
- 2.3 The government announced a 4.5% cash terms increase at the national level in local government's Core Spending Power (CSP), or a total £2.2bn increase. In addition, announcements were made about the Government's assumptions in respect of various key elements of the local government Finance Settlement. For instance, the increase in spending power relies on Districts and Boroughs increasing Council Tax by whichever is the greater of 2% or £5 on a Band D property.
- 2.4 However, for Surrey Heath the increase in CSP for 2021/22 is nil and remains at the 2020/21 level of £11,343,000.

## **3. Use of General Fund Reserves**

- 3.1 The budget requires a call-down on General Fund Reserves of £300,000. It should be noted, however, that some of the savings planned for 2021/22 and set out in Paragraph 9.3 below are one-off and over the medium-term additional savings or increased revenue will be required to deliver a balanced

financial plan. An updated Medium-Term Financial Strategy will be presented to Council in October alongside the new Five-Year Corporate Plan.

3.2 The minimum prudent level of General Fund Reserve for the Council is £2,000,000 and it is expected that the Reserve will be significantly above this figure at the end of 2021/22 if the budget is delivered as shown.

3.3 It should be noted that the charge to reserves for the 2020/21 budget was £2,027,000.

#### **4. Contributions to Parishes**

4.1 The Council pays a special grant to parishes in respect of the change to their Council Tax base due to the introduction of the Local Council Tax support scheme. The budget for 2021/22 assumes that these grants will remain at £19,943, the same level as for 2020/21.

#### **5. Sharing of 2020/21 Collection Fund Deficit**

5.1 Losses on the Collection Fund for Council Tax to be charged to the 2021/22 budget total £231,000, of which £194,000 relates to adjustments from financial year 2019/20.

5.2 For NNDR, there is an adjustment required for a shortfall relating to financial year 2019/20 of £1,278,000 which is charged against the Council's Business Rate Equalisation Fund.

5.3 In the financial package announced to support Local Government through the current pandemic, the Secretary of State for Communities and Local Government announced that for 2020/21 there would be an equitable sharing of local taxation collection losses between local authorities and the Treasury. The Spending Review papers confirm that the Government will use a scheme similar to the income compensation scheme (though without the 5% deductible) and cover 75% of Local Government's Collection Fund deficits for 2020/21. The published costings indicate that this is expected to total £762m, being 75% of a forecast deficit of £1,016m. This has been calculated using the Government's forecast, which is lower than the £2,419m cash losses reported by authorities from March to September 2020 in the COVID Financial Impact Monitoring Survey.

5.4 For Surrey Heath, the estimated deficit for 2020/21 is £445,000. If £334,000 (75%) is met by Government, this leaves a sum of £111k to be spread over three years, of which £37,000 (one-third) has been included in the budget for 2021/22. It should be noted that the estimate for the Council is subject to change, according to the settlement, "depend[ing] on outturn from local authorities once the financial year has closed" because it is the Government's intention to use actual, rather than estimated outturns.

## **6. National Non-Domestic Rates**

- 6.1 The Government sets two multipliers for Business Rates: The Small Business Non-Domestic Rate Multiplier for small businesses and the Non-Domestic Rate Multiplier for other businesses.
- 6.2 For 2020/21 the Multiplier was 51.2 pence and the Small Business Rate Multiplier was 49.9 pence.
- 6.3 The expected Business Rates Multiplier increase in line with September CPI will not now take place and will instead remain for 2021/22 at the 2020/21 level. The estimate of the Council's share of NDR included in the budget reflects this decision. Allowance has been made for increases in NDR valuations for Surrey Heath business properties of £176,834 using similar projections to financial year 2020/21.
- 6.4 The Council is also part of a Surrey-wide 'pooling' arrangement for 2021/22. Total additional income generated across Surrey is estimated to be £4.2 million, and Surrey Heath's share is estimated to be approximately £450k for 2021/22. However, it is not recommended that the Council include any pooling gain in the base budget, but rather treat it as a potential in-year benefit, because the actual figure is dependent on forecast business growth across Surrey that is subject to variation dependent on the pandemic and other economic conditions.

## **7. New Homes Bonus**

- 7.1 The New Homes Bonus (NHB) scheme, which is intended to incentivise housebuilding, was due to cease with the planned introduction of the Fair Funding review in April 2020, but it has been extended twice as the Fair Funding review has been postponed. Consultation on the future of NHB is promised shortly, with implementation planned for 2022/23. The Spending Review documents confirmed that the Government will be "maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments". However, NHB payments will reduce by £285m in 2021/22.
- 7.2 New Homes Bonus typically accounts for a significant proportion of the Central Government funding received by District and Borough Councils. To partially offset the reductions in NHB in 2021/22 the Government is introducing an un-ringfenced £111m Lower Tier Services Grant, £25m of which is to be used specifically to ensure no Council sees a reduction in Core Spending Power because of the New Homes Bonus changes.
- 7.3 The remaining £86m of the new grant will be distributed according to the 2013/14 Settlement Funding assessment methodology. There are no further details on what restrictions there might be on the use of this grant.
- 7.4 The consultation on the settlement says the £25m "minimum floor funding" should ensure districts have a "nominal and real terms increase" in Core Spending Power in 2021/22 compared to 2020/21. However, it adds: "The

Government is clear that this funding is in response to the current exceptional circumstances and is a one-off. No local authority should take this funding floor as guaranteeing similar funding floors in future years, including in future finance reforms.”

- 7.5 For Surrey Heath Borough Council, the estimated income from NHB of £460,753k and the new Lower Tier Services Grant of £140,000 have been included in the budget for 2021/22. A comparison of NHB received for 2021/22 compared to 2020/21 is shown in the table below:

<b>Component</b>	<b>2021/22</b>	<b>2020/21</b>
Year 11 Payments	£198,790	-
Year 10 Payments	-	£535,701
Legacy Payments	£261,963	£374,294
<b>TOTAL</b>	<b>£460,753</b>	<b>£909,995</b>

## **8. Income Compensation Scheme for Lost Sales, Fees and Charges**

- 8.1 At the beginning of the pandemic the Government introduced a scheme to compensate Councils for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services in financial year 2020/21 because of lockdown, government restrictions and social distancing measures. This one-off income loss scheme has been extended for the first quarter (April – June) of 2021/22.
- 8.2 The scheme involves a 5% deductible rate, so that the Council will absorb losses of up to 5% of their budgeted 2021/22 sales, fees, and charges income, with the Government compensating 75p in every pound of relevant loss thereafter. The estimated grant from this scheme for Quarter One of financial year 2021/22 is £150,000.

## **9. Potential Savings and Growth**

- 9.1 Given the challenges facing the national economy, local services, and the Council in particular, the Corporate Management Team has scrutinised various elements of the Council’s spending and income plans as part of the 2021/22 budget exercise. The parameters for these reviews were:
- Apply Zero Based Budgeting techniques to all service areas that are particularly dependent on income from sales, fees, or charges;
  - No increase in fees or charges above CPI except where directed by statute;
  - No reduction in front-line services.
- 9.2 In addition, the draft budgets prepared by Departments have been reviewed by the Council’s Corporate Management Team and political leadership.

9.3 The outcome of the reviews suggests that base budget net savings of £2,103k can be delivered without impacting on service delivery. These are set out in the table below:

<b>POTENTIAL SAVINGS</b>	<b>£000</b>
<b>Staffing (with no direct service reductions):</b>	
No increase in salary budget*	200*
Reduced use of interim staff	150
Net savings from review of management	110
Reduced vacancy factor	(25)
Savings from joint-working	90
<b>Improvements:</b>	
Improved value-for-money from procurement	125
Second Tranche of Zero-Based Budgeting	100
On-Shoring of JPUT	125
Energy savings (Green Agenda)	25
Partnership working (KPMG Report)	50
<b>Additional Income:</b>	
Grant funded salaries	35
Renting out of space at Surrey Heath House	30
<b>One-Off Savings:</b>	
Historical garden waste income owed and contractual refund	588
Release of Rent Guarantee Scheme (THETA)	500
<b>TOTAL PROPOSED NET SAVINGS</b>	<b>2,103</b>

*\* As discussed in Section 3 above, £200k of these savings, arising from the assumptions of no increase in salaries for 2021/22, is already anticipated in the draft budgets for departments. Therefore, the savings figure shown in Annex A is stated as £1,903k, since £200k is already accounted for in the draft base budget.*

9.4 As part of the budget exercise the Council's Corporate Management Team and political leadership have identified service areas within the organisation where resources are insufficient to deliver the aims of the Corporate Plan. These include:

- Enforcement and compliance
- Planning policy
- Asset management
- Corporate landlord functions
- Procurement
- Democratic processes

9.5 The estimated cost of the additional resources (mainly staffing) that is required is in the range of £300k - £350k per annum. For the purposes of the budget, growth of £300k has been assumed in 2021/22.

## 10. Exceptional Hardship Fund

10.1 Members have expressed concern that given current conditions the Council's existing Exceptional Hardship Fund may be insufficient in terms of scope and budget. As a result, and pending a planned full review in the next few months, it is proposed to increase the base budget from £10,000 to £40,000, and to transfer a further £40,000 from reserves to increase the total sum available for 2021/22 to £80,000. In terms of the base budget, the increase is £30,000 for 2021/22.

## 11. Specific and Non-Ringfenced Grants

11.1 The following grants are included in the base budget for 2021/22:

<b>Grant</b>	<b>£000</b>
Lower Tier Services	140
Income loss for Q1	150
Rough Sleeping Initiative	83
Homelessness Prevention	318
LA Covid Support SR20	325
LA Covid Support SR20 LCTSS	78
<b>TOTAL</b>	<b>1,094</b>

## 12. Special Expenses

12.1 Special Expenses are used as a mechanism to charge elements of the Council Tax to specific areas of the Borough. They are an accounting adjustment used to avoid residents paying 'double taxation'. Where Surrey Heath Borough Council provides a service to non-parished areas that is provided by the parish councils in other parts of the Borough it would result in some residents paying for the service in their parish through its precept, while at the same time contributing to the cost of provision elsewhere through the Council Tax calculation for the Borough.

12.2 In the interests of fairness and balance Surrey Heath Borough Council charges Special Expenses in Camberley, Frimley, Frimley Green, Deepcut and Mytchett to recover the costs of maintaining the assets it owns. The draft budget for 2021/22 assumes that Special Expenses adjustment will total £187,223.

## 13. Future Resource Implications

13.1 There were several changes to Local Government Finance expected in 2021/22 however, these have now been deferred. It was expected that the Fair Funding Review together with changes to the localisation and rebasing of

Business Rates would be introduced. Rebasing is where existing gains (and losses) from each area are shared across the country. Although exact details of how this would work are not available, the Council's advisors LG futures have modelled how this may work and estimate the Council could lose up to £1.5m when it is finally introduced, mainly due to the loss of historical business rates gains.

- 13.2 As regards funding from Central Government, given the continuing pressures on social care and health, exacerbated by the pandemic, it is unlikely that Boroughs and Districts will feature highly in demands for additional cash and so it is expected that funding will at best stay level or more likely continue to reduce. In the short-term, the Council has received some support to deal with costs and loss of income arising from the pandemic, but these should be considered as short-term one-off grants, and not relied on for future financial planning.
- 13.3 Each year The Council rolls forward its five-year Medium Term Financial Forecast (MTFS), 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 annual Financial Strategy, is usually presented to Council as part of the Council budget-setting report in February, ahead of the start of the financial year.
- 13.4 Given the uncertainties over future funding because of the one-year settlement provided by Central Government; the continuing impact of the pandemic; the economic downturn; and the need to re-assess future income forecasts once the pandemic is brought under control, the Council's Annual Plan requires a new MTFS to be agreed by Council by October 2021. The preparation of the forecast this year is likely to be particularly challenging given there is no information on funding beyond 2021/22.
- 13.5 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 acquisition of commercial property, and this had been successful in meeting these challenges prior to the pandemic. Going forward if services are to be maintained the strategy will need to be reviewed and other income streams and savings opportunities identified.
- 13.6 It should be noted that as part of the Spending Review, the Government reduced the cost of borrowing for infrastructure projects but introduced new restrictions on Councils' ability to borrow to acquire assets primarily for yield.
- 13.7 For the moment, however the Council has adequate reserves to manage these uncertainties.

## **14. Key Issues**

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

- Sets out proposals for the budget and Council Tax for 2021/22.
  - Gives details of expected funding including Business Rates and grants for 2021/22.
  - Includes a financial commentary on the financial challenges the Council faces in the future.
- 14.2 The 2021/22 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 no allowance has been made for pay or pension increases this year.
- 14.3 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.
- 14.4 The Council will be part of a Surrey-wide Business Rates pool in 2021/22 but expected gains from this exercise are not included in the budget.
- 14.5 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 (including earmarked reserves) are projected to be approximately £33 million at 31st March 2021. These reserves are not only needed for future committed expenditure, such as SANGS, but also to manage the significant financial risks around commercial property and interest rates. They can also be used to balance the budget until new income streams or savings are available.
- 14.6 The shortfall in the Collection Fund arising from financial year 2019/20 of £1,278,000 has been met from a call on the Council's Business Rates Equalisation Fund.
- 14.7 Surrey Heath has acquired significant property holdings over the last five years, which is contributing to support Council services. The pandemic and associated economic downturn have had a significant impact on expected income for 2021/22 and it is proposed to set aside an earmarked reserve of £800,000 (re-purposed from existing reserves) to be drawn down on in the event of any further deterioration in economic conditions.
- 14.8 The Council only has limited capital receipts and so needs to borrow to fund its capital aspirations. If these projects are not in themselves self-financing then the interest and Minimum Revenue Provision must be covered from the overall revenue budget. For every £1m borrowed about £39,000 revenue is required per year, assuming the asset has a life of 50 years, and so more income generating investments, or reductions in costs, will be required to cover this cost.
- 14.9 The General Fund Reserve, which is the Council's contingency fund, needs to be sufficient to deal with any unexpected expenditure. The draft budget for 2021/22 requires a call-down on the Reserve of £300,000. 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 2022, and this figure is confirmed as achievable by the Council's Section 151 Officer.

14.10 The revenue estimates or budget is a fundamental cornerstone of the resourcing of Council services and the delivery of the corporate plan. Members are asked to pay particular attention to:

- The impact of reduction in Government funding and how this has been addressed.
- Costs financed from reserves.
- The use of property income to fund services.
- The underlying assumptions in the budget.
- The financial forecast and its implications in respect of the need for further savings/income if financial stability is to be achieved and the underlying assumptions in its preparation.

## **15. Options**

15.1 Council is asked to consider and agree the 2021/22 Revenue Estimates and Council Tax as set out in this paper. Members may amend or reject any part of the budget but are reminded that there is a legal responsibility to set a balanced budget and so any changes could affect this.

15.2 Council could agree a higher or lower increase in Council Tax than the £5.00 increase at Band D assumed for the draft budget. A reduction of £1.00 at Band D would reduce income by £39k. Any recommendation to increase Council Tax above the £5.00 assumed for the draft budget would require a local referendum prior to implementation.

## **16. Officer Comments**

16.1 S151 Officer Statement:

16.2 This report sets out the views of the Council's S151 Officer (i.e., the officer with specific responsibility for financial matters under the provisions of the 1972 Local Government Act).

16.3 The specific requirements upon the S151 officer are contained in S25 of the 2003 Local Government Act:

'... the chief finance officer of the authority must report to [a council making budget / council tax decisions] on the following matters:

- (a) The robustness of the estimates made for the purposes of the calculations, and
- (b) The adequacy of the proposed financial reserves.'

16.4 The Executive Head of Finance is the Council's S151 Officer, and he is confident that the estimates being presented have been based on sound knowledge of the costs and income, which will aim to deliver on the priorities

within the Council's Corporate Plans. The achievement of this balanced budget, will be through the use of tight controls and the success of delivering on the savings programmes, resulting from the Zero-Based Budgeting exercise, Corporate Management Team reviews and other budget work streams.

- 16.5 The risks associated with the deliverability of this budget are detailed in Section 9 of Annex A, and close monitoring of the issues outlined are a necessary factor in ensuring balances are maintained, at the agreed limit set by Council.
- 16.6 The Council is currently spending too much money and this needs to be brought in to line within resources available, addressing the budgetary shortfall within the Medium-Term Financial Plan and the priorities of the Council's Corporate Plans.
- 16.7 The Executive Head of Finance has a responsibility to ensure that the budget is delivered to plan.
- 16.8 In the opinion of the S151 Officer this report and budget complies with the Local Government Finance Act 1992 and the Local Government Act 2008. The Council is forecast to have sufficient reserves to facilitate the delivery of its financial plans for 2021/22.
- 16.9 The use of reserves as set out in the 2021/22 budget would leave the Council's reserves above the identified minimum level of £2 million. Whilst the Council has adequate reserves to manage cost pressures in the short-term, action will need to be taken to address this when the Medium-Term Financial Plan is updated in October 2021.
- 16.10 This budget includes a recommended increase in Council Tax of £5.00 at Band D for 2021/22, the maximum permitted without a local referendum. Even at £5.00 the Surrey Heath increase will be significantly less than both the County and the Police increases. Of all the income streams the Council has, Council Tax is least volatile and therefore is the only one that can provide a stable funding base for services.
- 16.11 There have been some minor changes to the budget papers compared to what was discussed and agreed at the meeting of the Council's Executive on 16 February 2021 as a result of the final settlement. There is no impact on the overall robustness of the budget or levels of local tax arising from these amendments.

## **17. Corporate Objectives and Key Priorities**

- 17.1 The report addresses the Council's Objective of delivering services efficiently, effectively and economically.

## **18. Risk Management**

18.1 The proposals in the report address key issues in the Council's Corporate Risk Register relating to the financial stability of the organisation over the medium-term.

## **19. Environmental Impact**

19.1 The annual budget exercise has regard to the Council's policies on environmental impact and sustainability. In the proposed budget for 2021/22, savings are expected from green energy schemes, better use of assets and available office space and smarter procurement.

<b>Annexes</b>	<b>Annex A: Revenue Budget and Council Tax 2021/22</b>
<b>Background Papers</b>	<b>Various working papers by the Council's Finance Team Government Spending Review December 2020 Final Settlement February 2021 Precept letters 2021/22: Parishes, Surrey County Council, Surrey Police &amp; Crime Commissioner</b>
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