

WAVERLEY BOROUGH COUNCIL

VALUE FOR MONEY O & S COMMITTEE

25 JANUARY 2021

EXECUTIVE - 9 FEBRUARY 2021

Title:

GENERAL FUND BUDGET 2021/22
MEDIUM TERM FINANCIAL PLAN 2021/22 – 2024/25

Portfolio Holder: Cllr Mark Merryweather , Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Public

1 Purpose and summary

The purpose of the report is for the VFM O&S Committee to scrutinise the draft budget and Medium Term Financial Plan update and pass comments to the Executive ahead of its meeting on 9th February. This report sets out in detail the draft General Fund Budget for 2021/22 and the latest Medium Term Financial Plan. The Financial Plan sets out the key work streams for the Council to focus on which, collectively, aim to address the significant shortfall in annual budget projected over the medium term.

This report contains the following Annexes:

- Annexe 1 – draft Medium Term Financial Plan
- Annexe 2 - draft General Fund Budget Summary 2021/22
- Annexe 3 – statement of key variations from 2020/21 base budget
- Annexe 4 – draft Fees & Charges for 2021/22
- Annexe 5 – draft Capital Programme
- Annexe 6 – schedule of projected reserves and provisions

2. Recommendation for Overview and Scrutiny Committee

- 2.1 The Value for Money O&S Committee consider the draft budget, fees and charges and capital programme and review the revised Medium Term Financial Plan projections and pass comments and observations to the Executive.

3. Reason for the recommendation(s)

- 3.1 The Budget is a major decision for the Council and setting a balanced budget is a statutory requirement. Scrutiny of the financial plan and budget proposals demonstrate transparency and good governance. As a result of the sudden and unexpected Covid-19 impact, the Council had to act quickly to take steps to

address the significant projected net budget shortfall so that the Council can continue to function. A revised budget for 2020/21 was set in August and Council asked that the medium term financial projections be updated in February 2021 alongside the budget setting report for 2021/22. The Medium Term Financial Plan projects future financial pressures and opportunities to enable the Council to take action to ensure sufficient funding is in place to deliver services.

- 3.2. For information, the following are the draft recommendations from Executive to Council:
1. It is recommended that the Executive, after considering comments from the Value for Money Overview & Scrutiny Committee, makes the following recommendations to Council, to:
 2. agree a £5 increase in Waverley's Band D Council Tax Charge for 2021/22 with resultant increases to the other council tax bands;
 3. agree to make no change to the Council's existing Council Tax Support Scheme and continue to allocate additional Government support to help those council taxpayers most financially affected by the pandemic;
 4. agree the proposed Fees and Charges for 2021/22;
 5. approve the General Fund Budget for 2021/22 as summarised in Annexe 2, incorporating the baseline net service cost variations included at Annexe 3;
 6. approve the specific use of reserves to mitigate the Covid-19 uncertainty risk and the estimated reduction in retained business rate funding over the Medium Term Finance Plan period, and the other reserve movements as set out in the annexe 6,
 7. approve the General Fund Capital Programme; and,
 8. agrees to extend the 2020/21 Capital Strategy to cover the period up to the Council meeting in April 2021

4. Waverley's Medium Term Financial Plan (MTFP)

- 4.1 The Medium Term Financial Plan (MTFP) is Waverley's key financial planning document which takes account of all the currently known various factors and influences that may impact on Waverley for the next few years. These factors include: economic conditions, Government restrictions, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, sources of income etc. It also includes an assessment of the risks faced by Waverley. The draft 2021/22 budget is set in the context of the latest MTFP.
- 4.2 The MTFP includes a forward look over the next four years to anticipate the spending pressures faced by Waverley. Planning now to meet known changes in the future provides greater opportunity to mitigate the impact. Good preparation will mean that Waverley has sufficient funds to meet unexpected costs and that limited financial resources are targeted to Waverley's residents' highest priorities.

4.3 The purpose of the Medium Term Financial Plan is to:

- Provide a framework for managing resources in the medium term to deliver the corporate plan.
- Demonstrate that sufficient resources will be available to meet Waverley's objectives and priorities, particularly in the delivery of value for money.
- Look ahead to the longer term to protect and help plan sustainable services within an extremely challenging external economic and funding environment.
- Strengthen Waverley's financial resilience and manage volatility and risk, including maintaining an adequate level of reserves.
- Anticipate financial pressures and identify potential ways to balance Waverley's budget including through efficiency measures.

4.4 Following on from the Contingency Revised Budget approved by Council in August, an update to the Medium Term Financial Plan including a review of the longer-term effect of the pandemic on the Council's future financial resilience was reported to Council at its December meeting. In December, Council agreed that a further review of the Plan be reported in February alongside the 2021/22 draft budget.

4.5 The Council's MTFP has been updated to include the latest General Fund projections, including the reserves earmarked for specific purposes, that may have to be drawn upon to meet the budget shortfall. This report sets out the ongoing material financial pressures, risks and uncertainty which are on a scale never previously experienced. The report develops existing strategies for addressing the financial challenges to protect vital services and put the council in a more sustainable financial position, but also highlights the significant residual budget shortfall projected over the next four years.

4.6 The updated MTFP projection is included in **Annexe 1** which details the revised projections and assumptions for the four year period (This is further illustrated with graphs also at **Annexe 1**). The changes from the balanced February 2020 position are based on a review of the ongoing impact of the items identified in the Contingency Revised Budget, new emerging issues and cost pressures. The latest MTFP projections shows a £7.9m increase in the projected net budget shortfall for the four year medium term compared to last February, and it is now estimated that the total cumulative gross budget shortfall, before compensating measures, over the four year period is £20.5million. Currently a cumulative total of £12.6m of compensating measures have been identified. If Government funding continues to fall short of meeting the full impact of Covid-19 on the Council's finances, this will remain as the key direct driver of this budget shortfall. This projection, and similar in other local authorities, represents the greatest financial challenge faced by local public services in recent times.

4.7 The principal aim of the revised MTFP is to protect core services. In the light of this, it is proposed in this draft budget that the principle agreed by Council in August in the 2020/21 contingency budget is rolled over and the specific repurpose of those earmarked reserves is agreed in 2021/22 instead. Drawing on

reserves to fund ongoing costs would not be a sustainable position given that Waverley has limited General Fund reserves. However, given the major and immediate impact of the pandemic on Waverley’s finances, targeted and temporary drawing on specific reserves is unavoidable to protect services and funding to community organisations. More details on the proposals on reserves are included later in the report.

4.8 The budget and MTFP projections are being prepared with a range of assumptions made in very uncertain economic conditions. Therefore the figures are volatile, particularly with regard to the timing and extent of recovery of income streams impacted by the pandemic. The February 2020 MTFP already included some challenging targets supported by a range of strategies and it is crucial that these continue to be fully supported and remain the central focal point for addressing the budget shortfall. More details on the assumptions are set out later in the report.

5. Budget Pressures Summary

5.1 The following table shows the main budget pressures projected over the MTFP period. Further detail is included at **Annexe 1**.

	2021/2022	2022/2023	2023/2024	2024/2025
Anticipated Budget Variations	Change from 2020/2021 Feb Base	Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base
	£000	£000	£000	£000
Contingency budget, ongoing impact – costs	126	0	-20	-106
Contingency budget, ongoing impact - income	2,650	-1,220	-700	-730
Covid-19 Income Claim – confirmed until June 2021	-460	460		
Covid-19 General Govt. funding for costs	-457	457		
Proposed provision for Covid-19 impact	1,000	-330	-330	-340
Inflation and contractual increases	603	655	804	838
Housing benefit admin grant	0	30	30	30
Business Rate Retained Income	0	700	700	400
Treasury management interest	298	150		
One off capital receipts funding for Business Transformation team	-220	220		
Borough Elections Reserve 2020/21 deferred contribution	0		63	-63
Contingency for savings target achievement risk	111			
Unavoidable Budget Adjustments – annexe 3	347			
Budget Shortfall	3,998	1,122	547	29
From 20/21 Base	3,998	5,120	5,667	5,696
Total over MTFP		9,118	14,785	20,481

6. Budget Strategy

- 6.1 Waverley's strategy for addressing the budget shortfall continues to be informed by the budget consultation and the work of the Budget Strategy Working Group in 2019 and is illustrated below. The themes in squares relate to ongoing actions, the four ovals indicate the principal work streams identified in the strategy.



- 6.2 The annual General Fund savings targets for each work stream in the budget strategy for the 4-year MTFP period are:

MTFP Target Measures 2021/22 to 2024/25

	£'000
Cost review	563
Property Strategy	450
Commercial Strategy	542
Business Transformation	849
Council Tax increase in WBC charge	907
Total Target savings	3,311

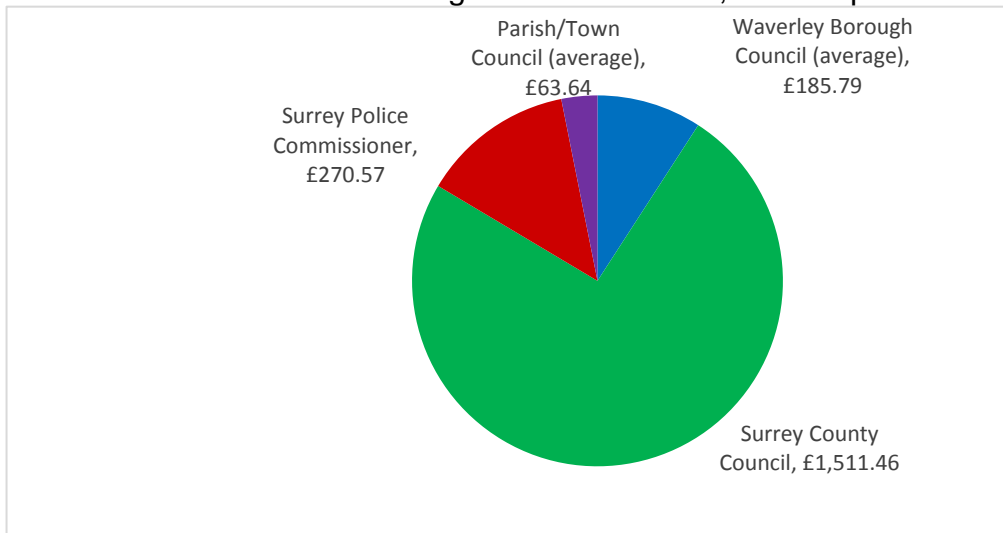
- 6.3 In addition, further new sustainable strategic initiatives have been identified and are being pursued. For example, as announced in the MTFP update report to Council in December 2020, the Executive will also be looking at further efficiency initiatives in the future including collaboration opportunities with willing partners.

7. **Funding for Waverley's Services**

- 7.1 As well as collecting council tax to support its own budget, by law Waverley has to collect council tax for Surrey County Council, Surrey Police and all town and parish councils in the Borough and this money is paid over to those organisations. The Government restricts the amount that council tax can be increased each year and this is explained in more detail later in this report. In addition, Waverley collects business rates from all non-domestic premises in the Borough. Most of this money is paid to the Government with a relatively small amount being retained by Waverley and Surrey County Council. The Government

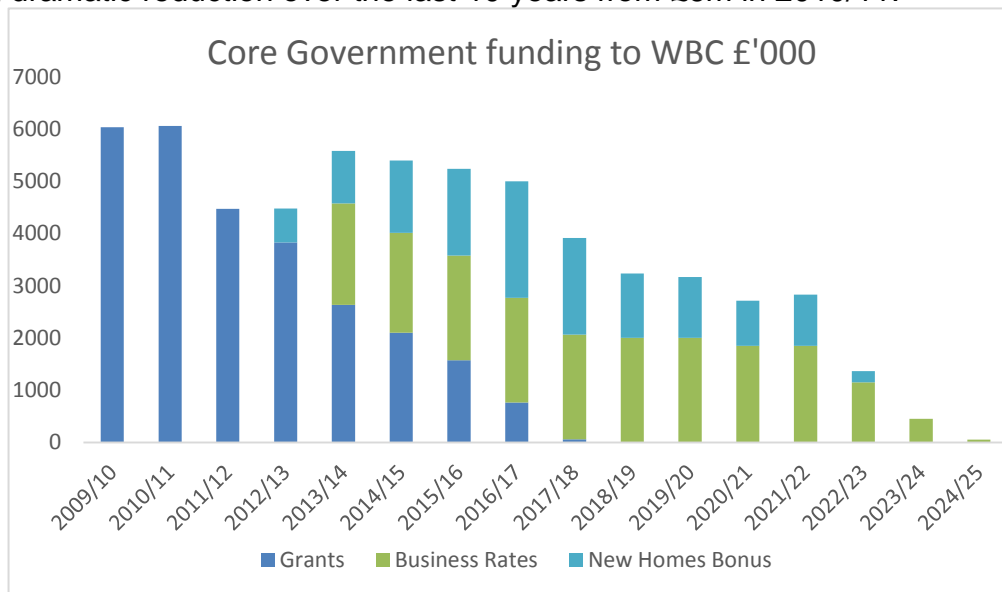
set the rateable value and rates chargeable for all business premises.

7.2 The total band D council tax charge in 2020/21 is £2,031.46 split as follows:



7.3 The amount of council tax that will be paid to each of the precepting bodies, including Waverley, Surrey County Council and the parish and town councils, is fixed for the financial year. Any variation in actual compared to estimated forecasts used in calculating the council tax base and/or the estimated in-year collection rate will impact in the following and subsequent years. For example, if Council Tax Support caseload and value increase above the estimated amount, or if the collection rate was lower than the assumed amount, the collection fund will fall into deficit which will be apportioned in future years.

7.4 Waverley's Revenue Support Grant from the Government is zero, there has been a dramatic reduction over the last 10 years from £6m in 2010/11.



7.5 Waverley currently retains £2m of the £38m business rates collected as its core (around 5%) funding for general fund services. This main element of this amount, approximately £1.8m, is derived from a Government formula which determines each Council's safety net position against its 'baseline need' for funding. The second, variable element is an estimated potential £0.2m, is related to the total Rateable Value (RV) of business premises in the Borough which is affected by

physical properties and the RV assessed by the Government's Valuation Office. This can also fluctuate according to appeals from rate payers. The Government announced in the autumn that it was delaying to 2021/22, its review of business rate funding for local authorities and its 'relative needs' calculation. Waverley's MTFP forecasts significant reductions in grant over the next four years. Officers have taken a cautious view of the impact of these reviews on Waverley's budget given previous past experience of redistribution formula and this is reflected in the MTFP projections shown earlier.

- 7.6 The 'structural deficit' in Waverley's budget arising from service cost inflation, equating to £0.6m per year, compared to additional income from council tax which is limited by Government controls. Before external cost pressures are accounted for, the Council is not able to stand still financially due to the Government's restriction on Council Tax increases. In 2020/21 this is £5 per Band D equivalent (or 9.6p per week) equating to a maximum of £277k additional council tax income. As Government funding has fallen away, the Council has reluctantly become increasingly reliant upon Council Tax funding which is only a third of the overall cost base. In addition, for new properties in the borough, approximately 33% of the council tax income is paid out for waste and recycling services.
- 7.7 In 2016/17 the Government informed a number of councils, including Waverley, that they would have grant clawed back to address the Government's overall funding shortfall. This became known as 'negative RSG' and for Waverley this would have been £800k pa. Since this announcement, the Government has decided each year to fund this shortfall itself rather than impose it on the named councils. However, the threat still exists and it is expected that this will be addressed as part of the main review of business rate funding in 2021/22.
- 7.8 The Government announced the 2021/22 local Government finance settlement for consultation late in December 2020. The headlines are as follows:
- No negative grant
 - Retained business rates for Waverley at same safety net level of £1.8m
 - New homes bonus £977k but no guarantee of payment in future years
 - Council Tax increase limit for WBC £5 band D or up to 2%, whichever is the higher
 - no limit on council tax increases for town and parish councils
 - Surrey County Council council tax increase limit up to 5% (including the 3% for adult social care costs).

8. Covid-19 related Government grant

- 8.1 The Government has so far given the Council £1.527million of Covid-19 support grant towards its £6.6million 2020/21 projected budget deficit, and the Council estimates that it may be eligible to claim £2.2million from the Government's compensation scheme for lost income from fees and charges. A further £0.5million of cost-related grant has been confirmed plus a potential £0.4million of income grant for 2021/22. In addition, Waverley will be claiming for funding towards the impact of leisure centre closures, the outcome of which is uncertain and any funding would be counted in 2020/21 against the closure costs. Various other targeted funding has been received to implement a range of specific Covid-

19 support schemes.

9. Budget Setting 2021/22 Background

- 9.1 The 2020/21 budget and MTFP included a range of estimates based on assumptions which, at the time the budget was set, were deemed to be robust and deliverable overall. However, the sudden, unexpected, material and immediate adverse impact of the Covid-19 pandemic necessitated a thorough review of the Council's in-year budget which identified a projected budget deficit of £6.6million as shown in the summary below. The Contingency Revised Budget also highlighted the risk that the Council may not have yet identified all of the impacts and that the pandemic may not be controlled as currently envisaged, these have been updated in the MTFP projections but may yet change further.

Contingency Revised Budget Summary 2020/21	£
Leisure facilities	£2.7m
Car park income	£2.0m
Property income	£0.7m
Planning and land charges income	£0.6m
Other costs and loss of income	£0.6m
Total estimated budget deficit	£6.6m
Agreed actions to address the deficit:	
Cost saving and efficiency measures	£2.3m
Government one-off grant	£1.5m
One-off draw on reserves	£2.8m
Total	£6.6m

10. General Fund Budget 2021/22

- 10.1 A summary of the draft budget for 2021/22 is set out in **Annexe 2** and the changes from the 2020/21 base budget are detailed in **Annexe 3**. The budget has been prepared on a business as usual basis, then adjusted for inflation, estimated Covid-19 impact and Government grants towards Covid-19 impact on the council's core income and expenditure. The estimated direct Covid-19 impact on the budget in 2021/22 is £2.6million in total which is an estimate of the extent to which income reduction and additional costs areas identified in the contingency budget will continue into the next financial year. Given the significant uncertainty about the impact that Covid-19 will have on Waverley's income and expenditure budgets in the future, it is proposed to include an additional £1m provision in 2021/22, reducing by a third in each year of the MTFP period.
- 10.2 The draft budget also includes a cost risk provision of £110k to allow for the potential difficulty achieving the range of savings targets in the year. Whilst heads of service have assessed the achievability of these targets as 'high' overall, under the current circumstances it is felt to be a prudent measure to include this allowance which equates to approximately 10% of the relevant savings. The review of reserves has been broadly in line with that agreed by Council in the

contingency budget in August 2020 and the review of the MTFP in December 2020.

10.3 The General Fund Summary at **Annexe 2** shows a budget shortfall of £1.195million in 2021/22. There are no proposed cuts to services or reductions in funding for community organisations included in the draft 2021/22 General Fund budget.

10.4 This budget shortfall is after allowing for the maximum allowable council tax increase of £5 at Band D (or 2.7% or 10pence per week) and the estimated savings measures that will be delivered from the property, business transformation and the commercial programmes. Allowance has also been made for the heads of service detailed review of expenditure. This detail is set out in **Annexe 3**.

11. Addressing the Budget Shortfall in 2021/22 and over the MTFP period

11.1 The cumulative budget shortfall over the four year MTFP period is £7.8m after itemised compensating measures. This shortfall is attributable almost entirely to the immediate and on-going impact of Covid, but when these dissipate the forecast impact of measures start to overtake the pressures on an annual basis in 2024. This is broadly in line with the position reported to Council in the MTFP update in December.

For financial planning purposes, the following table shows one scenario of how this can be addressed with a mix of specific reserve draw downs, as explained in the following section of this report, plus additional recurring savings to be identified in each of the years.

Addressing each years budget shortfall	In 21/22 £000	In 22/23 £000	In 23/24 £000	In 24/25 £000
Reserve to meet Covid-19 impact	£1,000	£670	£330	
Business rate equalisation reserve		£700	£700	£400
Annual target for further recurring savings/income	£198	£750	£350	£300
Total in year shortfall	£1,198	£2,120	£1,400	£700

Taking account of the recurring and non-recurring measures identified in the table above, the total accumulates to a total of £7,840k, as identified in Annexe 1. In summary, this cumulative shortfall over the 4-year period will be met as follows:

	Budget saving over 4-year period £000
Reserves to mitigate Covid-19 impact	£2,000
Use business rate equalisation fund to balance the forecast reductions in retained business rate income	£1,800
Further recurring cost savings and income (to be identified) i.e. 4x£198k + 3x£750k + 2x£350k + 1x£300k	£4,042
Total	£7,842

Since Council agreed the 2020/21 contingency revised budget, the Government

has clarified the bases for claiming Covid-19 "lost income" funding in 2020/21 and it is expected that this will reduce the approved reserve drawdowns in 2020/21 by approximately £2.2m.

11.2 However, the budget shortfall in 2021/22, after existing measures, is showing as £1.198m on **Annexe 1**. Since presenting the MTFP update to Council in December:

- the Government has confirmed additional Covid-19 funding in 2021/22
- the council tax assumption has been increased in line with the Government's announcement on what is allowed
- heads of service have identified further savings.
- the Government confirmed Waverley's New Homes Bonus amount which has been included in 2021/22 budget.

All of these additional measures have helped reduce the shortfall in the first year of the MTFP period when the Covid-19 impact is the greatest. It is proposed to meet the shortfall from a £1m draw down from reserves to match the £1m Covid-19 impact provision included in that figure (explained in the section below), plus set an additional savings target of £198k. This equates to 1.5% of service budgets plus revenue contribution to capital. Savings options to achieve this include review of fees and charges to generate additional income, scaling back or finding alternative funding for capital schemes and identifying further cost reductions. This will be exceptionally challenging but, at this stage, it is considered to be an achievable target.

11.3 Further sustainable longer term savings will be much harder to deliver and officers, working with councillors, will need to spend the coming year working up options, some of which will require innovative and/or difficult decisions, within the framework of the law and the constraints of Government policy. These will include:

- Extended business transformation and efficiency projects beyond the current programme
- Collaboration with other councils and shared service opportunities
- Review of capital investment and funding
- Review of property investment in the light of new Public Working Loans Board (PWL) rules
- Restrictions on expenditure
- Further opportunities for commercial thinking and income generation, as far as the law and Government policy allow.

12. Earmarked and non-earmarked reserves and provisions.

12.1 A summary of the available reserves is included on **Annexe 6**. This table takes account of the Contingency Budget 2020/21 and the MTFP projections. In the Contingency Budget Council agreed that it would draw up to £2.9m to balance the books. However it was also agreed that the net effect of any additional Government Covid-19 funding and/or change in budget assumption would be used in lieu of reserves to provide more flexibility in reserve levels to address future years' financial pressures. The following table sets out the latest position and the current proposal.

Reserve	Agreed use in 2020/21 contingency budget * £000	Revised use in 2020/21 contingency budget £000	Latest MTFP proposal transfer to Covid-19 budget risk contingency reserve £000
Homelessness Support Grant	474	474	0
Commercial property Void provision	425	275	26
Emergency funding	17		17
Brightwells reserve, car park provision	296		296
Place shaping	188		188
Investment Advisory Board	418		418
Business rates equalisation reserve	649		649
SANG acquisition fund	200		200
General Fund working balance	206		206
Total	2,873	749*	2,000

*see **Annexe 2 and Annexe 6**

- 12.2 It is proposed to repurpose the range of reserves set out above, previously agreed by Council in the Contingency Budget 2020/21, to create a Covid-19 budget risk contingency reserve. This will only be drawn from in the event that Covid-19 impacts on the budget beyond the approved estimates. The draw down for any specific purpose meeting this criteria would be subject to the approval of the Management Board in consultation with the Finance Portfolio Holder. The 2021/22 draft budget includes £1m for this purpose reducing in the MTFP projections to £670k in 2022/23, £330k in 2023/24 and zero in 2024/25. This is matched by a corresponding contribution from this reserve.
- 12.3 The business rate equalisation reserve was established by the Council a number of years ago when the Government changed the national local Government funding system and transferred a number of business rate risks to local councils. This provision was set up to provide future 'smoothing' of the impact to the annual General Fund revenue budget of:
- the risks of Government cutting the retained business rate funding to Waverley
 - declining rateable values reducing retained funding
 - significant appeals reducing retained funding
- 12.4 It is proposed that £1.8m of the reserve (balance £3.2m after the proposal above) be included in the MTFP as a draw down against the projected reduction in business rate retained income following the forthcoming Government reforms. This is in line with the intended purpose and would only be actioned to the extent of any year on year reduction which is currently included in the MTFP as £700k in 2022/23, a further £700k in 2023/24 and a further £400k in 2024/25. This reflects a scenario of all current retained business rate income being removed but no negative RSG impact being imposed on Waverley, as referred to earlier in the report. Clearly there is uncertainty in this position and it will be reviewed when the

Government make further announcements.

- 12.5 The Property Investment Void provision is an important revenue mitigation supporting the Property Investment Strategy. Going forward this provision is intended to be maintained at a sufficient level to limit the impact in the event of rent loss due to a void period where a rent-free period is now expected even when the property is let. The recent investment in the specialty food retail premises in West Wickham occupied by Marks & Spencer was an important step in this strategy, but the impact of the subsequent tightening to PWLB restrictions on our portfolio strategy are still being assessed. Until the property portfolio is fully established and self-sustaining, it will require further contributions from the revenue budget to replenish the provision.
- 12.6 The future financial resilience of the Council is dependent upon the availability of reserves to manage financial shocks such as more lockdowns. Ideally, the use of reserves should be limited as far as possible to mitigating the temporary impact of the pandemic, net of any Government assistance. It is important to therefore ensure sustainable resolutions are found wherever possible and if necessary or appropriate temporary measures such as a vacancy freeze to limit the need to call upon reserves, which should always be a last resort.

13. Key Assumptions

- 13.1 The detail of the estimated extended impact of the pandemic is included on **Annexe 1 and 2** which builds on the contingency revised 2020/21 budget. The underlying assumption is that the income streams will fully recover within the time period of the MTFP.
- 13.2 Due to the significant financial pressures resulting from the pandemic, it will take a number of years for some income to recover to normal levels and therefore will require the identification of short or longer term measures to address this. Any change of use of earmarked reserves does not resolve the ongoing budget pressure and will require a resolution in the following year,
- 13.3 Part of the package of measures within the Contingency Budget was a recruitment restraint process to hold back on £0.6million of vacancies. This followed on from the Management Board decision to suspend all non-critical recruitment, review all external staff costs and suspend non-urgent spending where possible. This has proved to be an effective interim measure to help reduce costs this year although it must be recognised that it has placed significant pressure on services and staff and has affected performance in some areas. The impact of and ability to continue with these staff budget controls beyond 2021/22 has being carefully considered and no extension has been assumed in the draft 2021/22 budget at this stage.
- 13.4 The core funding for the General Fund Capital Programme is from Revenue Contributions from the revenue budget (£1.05million in 2020/21 base budget). This was reduced following a corporate projects review under the Contingency Budget by £0.472million. Within the MTFP the revenue contribution may have to be scaled back again even further to balance the budget, acknowledging that this may reduce investment in existing and new facilities and assets. With any further scaling back there will be need to be a proper assessment of the impact of this reduction on health and safety and the potential deterioration of assets. More

detail on the 2021/22 draft capital programme is included later in this report.

- 13.5 Inflation including pay and contractual increases assumes that inflation will not increase beyond 2% in line with the Bank of England's commitment. The inflation figure now includes all contractual increases resulting from non-inflation related increases such as pay grade incremental progression and the refuse and recycling contractual increase resulting from growth in the property base. Inflationary increases on income streams such as fees and charges are included as part of the commercial strategy target. The Council's main contracts are indexed to the Consumer Price Index (CPI). An inflationary amount has been assumed for all General Fund budgets where it is unavoidable. In terms of the staff pay award for 2021/22, which is also applied to Councillors' allowances, this has not been finalised at the time of writing. An estimate of the cost of a pay award plus other inflation commitments, are incorporated within the draft budget. Waverley's pay award is negotiated by the Joint Negotiating Committee, a committee of four councillors and four union/staff representatives, due to meet in January.
- 13.6 Waverley's MTFP forecasts significant reductions in Government funding over the next four years. This review has already been delayed for several years and it has announced recently that the review is delayed again. This delay has been reflected in the reprofiling of the Business Rate Retained Income reduction in the MTFP and relieves cost pressure in 2021/22. Officers have taken a cautious view of the impact of these reviews on Waverley's budget given previous past experience of redistribution formula. District and borough councils across southern England would tell a similar tale, and further lobbying is being undertaken with local Members of Parliament and the Local Government Association on this issue, as the Government prepares its 'Fair Funding Review' and its proposed new policies on devolution. The revised MTFP proposes to offset the impact of reducing retained business rate income using the business rates equalisation reserve.
- 13.7 Investment property contributed a £0.742million cost pressure to the Contingency Revised Budget before mitigation from the Investment Property Void provision. This pressure has been resolved by the expected resolution of the Wey Court East void, a number of lease regears within the current property portfolio and the recent completion of an investment property acquisition. The previously agreed investment property target over the MTFP period has been halved in light of recently announced restrictions of the use of borrowing at preferential rates.
- 13.8 Treasury management interest has been achieving an average return of 1.1% prior to the pandemic, netting the General Fund £0.577million. Since then the Bank of England reduced the base rate from 0.75% to 0.1% in March and due to the significant economic uncertainty the rates available on fixed term fixed rate money deposits has reduced to 0.2%. The immediate impact of the rate reduction is mitigated by the strategy in recent years to place cash deposits over longer terms where the rates were better. These will unwind over the next 18 months. The long term forecast does not indicate an increase in the base rate in the MTFP period.

14. Capital Receipts Flexibility Use

- 14.1 In common with many other councils, it is proposed that under these challenging financial circumstances, Waverley should take advantage of the Government's time limited Flexible Capital Receipts scheme to utilise capital receipts to fund business transformation projects that deliver efficiencies and savings. This action was approved by Council in December but to meet the requirements of the regulations, the intended uses must be identified and then monitored. The following table lists the likely areas for using this accounting flexibility.

	2020/21	2021/22
	£'000	£'000
Business Transformation team	220	220
One-off Business transformation costs		50
Laptop & Tablet Replacement		45
Desktop Computer Refresh		5
Mobile Phone Replacement		36
Wi-Fi at the Burys		5
Total	220	361

15. Risk

- 15.1 There is a risk that, if not monitored adequately, the proposed MTFP measures of business transformation, recruitment restraint, reduced capital spend and pared back service costs could put pressure on services, particularly if the Council continues to experience further pressure as a result of local or national lockdowns and the predicted wider economic downturn.
- 15.2 The biggest single budget impact of the first lockdown has been on leisure income and the MTFP assumes that there will be no net income to the Council at all during 2021/22 and a steady recovery going forwards. The impact of subsequent lockdowns on the viability of the leisure contract will need to be closely monitored as this will be a significant financial impact. Car parking income was the second biggest budget impact with an annual income of £5.2million equating to £0.1million per week. Post lockdown monitoring showed parking to be at 70% of pre Covid-19 capacity. Parking income will be severely impacted again in subsequent lockdowns, and the MTFP assumes the capacity usage will recover over the MTFP. Changes in Planning fee income are not considered to be directly related to lockdowns and more aligned to the macro economic climate. The remaining smaller income streams in total contributed an estimated £25,000 per week to the Contingency Budget deficit. The £1million reserve-backed provision should provide mitigation for this uncertainty in 2021/22 but the position will be kept under close review.
- 15.3 The MTFP projections include costs for additional capacity in Housing Benefit and Revenues team to cover the increased workload and also additional PPE expenditure. This insulates the cost base to a reasonable degree from further lockdowns and a worsening economic climate. It is envisaged that short term spikes in community pandemic response teams will be resourced internally resulting in service levels being temporarily reduced whilst staff are deployed.

15.4 The impact in future years of Waverley needing to unexpectedly draw down significant value of reserves is difficult to assess but, given the £8million budget shortfall already projected in the medium term, these risks will put serious pressure on the Council's financial resilience. In the light of the Covid-19 impact, councils need the Government to urgently give clarity on the continuation of the Covid-19 Sales, Fees and Charges compensation scheme beyond June 2021, the business rate funding and address the growing risk of business rate appeals and declining rateable values to local council budgets.

16. Fees and Charges

16.1 Fees and charges have been reviewed as part of the budget process. Some fees and charges are statutory but for those that can be determined by Waverley some inflationary increases are proposed for 2021/22 where appropriate. Whilst a comprehensive review was proposed for 2020, it was not felt appropriate to do this in the year due to the impact of the pandemic on customers. Therefore, charges have generally been increased in line with estimated CPI inflation at this stage. Details of the proposed changes to fees and charges from 1 April 2021 are included at **Annexe 4**. A further review of fees and charges will continue during in 2021 to reflect members' desire to consider opportunities to distinguish between for-profit and not-for-profit customers in the charges. Changes will be applied mid-year where appropriate, subject to the required approval process.

16.2 The commercial strategy highlights the need to review existing income sources to generate additional revenue. One area that is being considered is planning pre-application and performance agreement income. The draft budget includes an additional target of £40,000 to reflect a proposed revision to the charging structure and approach that will be developed early in 2021 and implemented during the 2021/22 financial year.

16.3 Proposed licensing fees & charges are included in **Annexe 4**, of which some are increased by inflation and some are unchanged. All of these fees are subject to consideration by the Licensing & Regulatory committee of the consultation responses.

17. Council Tax Support Scheme

17.1 The Council Tax Support Scheme, which replaced council tax benefit on 1st April 2013, is reviewed annually. A range of assistance was introduced by Waverley to assist claimants and these schemes are actively promoted. A hardship fund was created to support claimants and the qualifying criteria revised to encourage take up. Discretionary Housing Payments are also available, and Waverley officers are proactively supporting households that are most affected by welfare reforms. Experience shows that the current Council Tax Support Scheme remains successful as evidenced by the gradual pre-Covid-19 reduction in the number of claimants and the consistently low take up of discretionary support. The impact of Covid-19 has seen a significant increase in demand for support under the scheme since March 2020. Waverley has received an additional £0.5million of Covid-19 funding towards Council Tax support for those households most impacted and it is hoped that the increased take-up will be temporary and, over time, the caseload will revert to normal levels. It is, therefore, recommended that the current scheme remains unchanged for 2021/22.

18. General Fund Capital

- 18.1 Each year, the Council reviews its three-year Capital Programme and agrees the budgets to be included within the Budget for the year ahead and how they will be funded. The overall parameters for the Capital Programme are set out within the Council's Financial Plan. Each scheme put forward by heads of service were tested against criteria including revenue generation, carbon reduction and fit with corporate priorities.
- 18.2 The draft 2021/22 Capital Programme bids amount to £3.2million as shown at **Annexe 5** to this report of which £0.9m is funded from the General Fund revenue contribution referred to earlier. The table in **Annexe 5** does not include the £1.6m of slippage from previous years that are ongoing projects. The capital programme shows the first being essential spending on asset maintenance and unavoidable projects. Given the current and future budget shortfalls, other discretionary projects that have been put forward by heads of service will be subject to further consideration by officers, in consultation with portfolio holders before they can commence. This consideration will include the strength of the business case, the availability of external funding and opportunities to reduce or defer cost to reduce the draw on the revenue budget in 2021/22.
- 18.3 District and county councils in Surrey have been working to identify a transit site that would enable Police to use Section 62a powers under the Criminal Justice and Public Order Act 1994 with which to direct Unauthorised Encampments (UEs) and to prohibit offenders from returning to a UE anywhere within the borough for a period of 3 months, provided that such a site has capacity at that point in time. Other counties, such as West Sussex, have operated such a site successfully for several years.
- 18.4 A site has been identified in the east of the county that, subject to planning, will be developed into a 10-pitch transit site. The exact timetable for the site's construction is to be confirmed and will depend on the extent of remediation required as well as planning. The site requires significant expenditure on decontamination. District councils are being asked to contribute to the infrastructure costs as remediation will be met by Surrey County Council. The request is for a one-off capital contribution of up to £127k and £8k revenue for ongoing maintenance. In past years, Waverley Borough Council and parish/town councils have incurred significant expenditure in litigating and then restoring sites used for unauthorised encampments.
- 18.5 A single transit site in the county is expected to enable the Police to respond more quickly to unauthorised encampments in the future and reduce continued recurrence by offenders. It should also help to minimise conflict between communities and help to address any welfare needs of the individuals and families involved. As such, this contribution by the councils is viewed as an appropriate use of public funds.
- 18.6 In the base budget there is £100k budget to support the delivery of the Climate Change action plan, this is in 2020/21 and 2021/22 budgets. In 20/21 an amount of £200k is approved as a one-off pump prime, also to support the delivery of the

climate change action plan. Any project and initiative costs beyond the identified funds will be requested individually and CIL and external funding will be secured wherever possible.

19. Capital Strategy

- 19.1 The Council is required to review and approve the its Capital Strategy, which incorporates the Treasury Strategy and Property Investment Strategy, on an annual basis. These strategies must comply with the statutory Prudential Code and Treasury and Investment Regulations. Waverley's documents were last approved in February 2020. Changes to the borrowing rules have been published recently by the Government which could affect Waverley's investment activity and officers are still awaiting the final guidance. In the light of this, it is recommended that Council extends the validity of the 2020/21 Capital Strategy until an updated document is presented to the Council in April 2021 following scrutiny by the VFM O&S committee and agreement by the Executive. This will give time to reflect the new rules in the strategies to ensure they are compliant and meet the Council's needs.

20. Local Government Act 2003 – Financial

- 20.1 The Local Government Act 2003 formally introduced a number of specific matters that the S151 Officer must comment on in the budget setting report. These are:

- Budget calculations
- report on robustness of estimates
- Adequacy of reserves
- Budget monitoring

The sections were introduced to ensure sound financial management across all local authorities. Waverley's budget has always complied with good financial management practice. Prudent allowance is made for risk and uncertainties in budgets. Budgets are monitored by officers and reported to Members on a monthly basis supplemented by monthly exception reports. Waverley's financial management continues to receive favourable comments from its external auditors.

21. The Robustness of the Estimates

- 21.1 The 2021/22 budget has been prepared in unprecedented times of uncertainty and risk due to the impact of the pandemic on the council and its finances. The contingency budget agreed by Council in August 2020 and the comprehensive review of the MTFP in December were important steps taken during the year to revise projections. In the 2021/22 draft budget, account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and additional provision has been made within Waverley's budgets to allow for the uncertainty. Waverley's Financial Plan, together with information presented to members during the year demonstrates the financial challenges to Waverley in the future including the risks associated with the current economic situation.

- 21.2 The key Financial Plan issues for the General Fund include:

- Ongoing uncertainty and impact of the pandemic on Waverley's services and finances. The most material impact will be in income areas such as car parks, and in the operation of the leisure centres.
- Increased risk from changes in business rate income due to declining rateable value, increased appeal risk and the Government's review of business rate funding due in 2021 – impact on annual budget mitigated by the business rate equalisation reserve. This reserve has been assessed against the risks and no further contribution has been made in 2021/22. Further adjustments may be possible in future years but the outcome of the Government's business rate review will need to be assessed first, particularly in relation to Waverley's exposure to appeal risk.
- Keeping the dependency on current and new income from investment property in proportion to the overall budget and providing sufficiently for void periods and costs.
- Future of Government funding including New Homes Bonus
- Rising inflation and low interest rates.
- Impact of Surrey County Council's financial challenges on Waverley

21.3 In view of the level of awareness amongst Members and the action taken to produce Waverley's draft Budget for 2021/22, the Section 151 Officer is satisfied with the robustness of the estimates presented. The Section 151 Officer is confident that overall the Budget is prudent especially in view of the track record of achievement of substantial budgeted savings over the past years but the risks noted in this report must be acknowledged and increased monitoring during the year will be implemented. The MTFP sets out a multi-pronged strategy to address the financial challenges and these work streams are progressing well with confidence in their delivery of savings although the impact of the pandemic is also recognised and provision made to reflect the uncertainty going forward.

22. Adequacy of Reserves

- 22.1 The General Fund balance supports fluctuations in normal business, e.g. unexpected changes in inflation or interest rates, higher than anticipated expenditure or loss of income, and spending on unforeseen events. The Revenue Reserve is used to finance capital expenditure and one-off costs and the property fund is to finance property investment opportunities. It is essential that adequate balances are available to meet these and unforeseen costs. The contingency budget has stretched the use of reserves to an unprecedented level and has required a significant re-purposing of earmarked reserves to mitigate the impact of Covid-19 on the Council's budget.
- 22.2 Projections for the General Fund Working Balance and other reserves for the four year period are shown on **Annexe 6**. It is the view of the Strategic Director/Section 151 Officer that a level of £3.2m on the General Fund Working Balance, which is effectively just over 10% of the gross General Fund Budget or equivalent to just over one month's service spending, satisfies the adequacy requirements of the Local Government Act 2003.
- 22.3 The main risks to reserves in 2021/22 are the ongoing impact of the pandemic on revenue budgets, beyond the level already mitigated, commercial property voids and meeting the costs of defending the Council in any planning appeals or Judicial Review proceedings. In the event that these costs exceed the available

funding, the Council will need to divert some of the funding from the Property Investment Fund. Contributions to the property reserve and the business rates reserve have been assessed in the light of the estimated risk and adjusted accordingly and in line with the contingency budget and MTFP revision in December 2020.

- 22.4 In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered adequate.

23. Budget monitoring

- 23.1 It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring against the contingency budget in 2020/21 shows that the Council has mostly delivered the savings assumed and these currently look to be achieved by year end, with major expenditure items including pay and contract spend being on track. The latest quarter 3 monitoring summary statement will be reported to the O & S committees in March as part of the performance management report. Overall the arrangements in place are sound but, with the uncertainty about the ongoing impact of the pandemic, significant level and range of savings being put forward by Heads of Service in the draft budget for 2021/22 and the increasing reliance on achieving income targets, close monitoring will be essential to head off any potential adverse budget variations. The mitigating provisions put in place in the draft 2021/22 are sound measures to address the current high level of uncertainty.

24. Relationship to the Corporate Strategy and Service Plan(s)

- 24.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan. A new Corporate Strategy was approved by Council in December 2020 and the MTFP set out in this report is at the heart of its delivery.

25. Implications of decision(s)

- 25.1 Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources

- 25.2 Risk management

There are a range of risks associated with the delivery of the MTFP and achievement of the various saving/efficiency programmes in place to address the budget shortfall, these are particularly important to identify given the uncertainty in the estimates and local economy caused by the pandemic. The key risks are set out in the report, a summary of the MTFP risks is included below:

Achieving savings targets:

- the uncertainty in the estimates and local economy caused by the pandemic
- Significant investment in commercial property needed, to be funded from borrowing. Government policy change has affected the Council's ability to undertake 'yield' investments
- Major change programmes underway including transformation of customer services across the council.

We don't have significant non earmarked reserves

- Limited ability to fund change in the Corporate plan, zero carbon, structural deficit
- One off adverse impacts such as planning appeals, judicial reviews

Adequacy of provisions:

- Business rates – under the current retention system we carry some of the cost of appeals, impact of 100% retention, plus reducing total rateable value in the Borough
- Impact of Government's business rate funding review and Fair Funding review is likely to reduced retained business rates and increase risk
- Housing benefit overpayment recovery – will be limited in future due to Universal Credit
- Investment property voids – this is an increasingly important revenue stream

Negative Government grant:

- Still on the agenda – decision deferred to 2022 Finance Settlement

Further constraints on income:

- Reliance on Council Tax increase, Planning and Building Control income – affected by Government policy, economy and local political decision making
- The unknown economic impact of Brexit on inflation and interest rates

26. Legal

- 26.1 It is the annual responsibility of the Full Council to approve the Budget and set the Council Tax (Constitution Part 3:B6-7. P.40)

27. Equality, diversity and inclusion

- 27.1 There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments of the detailed budget proposals will be carried out to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

28. Climate emergency declaration

- 28.1 There are no direct implications arising from this report but reference is made to the need for the main budget proposals to address the resource requirement for the emerging climate change action plan. The 2020/21 budget included £100k recurring budget for ongoing staffing and other resources plus a one-off £200k pump prime for the Climate Change fund.

29. Consultation and engagement

- 29.1 The report requests the VFM O&S Committee to discuss the detailed budget proposals. In 2019 the Council undertook a public consultation exercise to gauge residents' views about the relative spending priorities.

30. Other options considered

30.1 Set out within the papers and to be discussed at O&S

31. Governance journey

31.1 The detailed budget proposals and revised MTFP will be reported to VFM O&S in January ahead of consideration by Executive and Council in February.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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