

WAVERLEY BOROUGH COUNCIL

POLICY OVERVIEW & SCRUTINY COMMITTEE – 25 JANUARY 2022

EXECUTIVE - 8 FEBRUARY 2022

Title:

GENERAL FUND BUDGET 2022/23
MEDIUM TERM FINANCIAL PLAN 2022/23– 2025/26

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 Policy O&S Committee to scrutinise the draft General Fund Budget and Medium Term Financial Plan (MTFP) 2022/23 and pass comments to the Executive ahead of its meeting on 8th February.

This report sets out the draft General Fund Budget for 2022/23 and Medium-Term Financial Plan (MTFP) ending 2025/26. The MTFP sets out the key work streams for the Council to focus on over this period which, collectively, aim to address the significant shortfall in annual budget projected.

This report contains the following Annexes:

Annexe 1 – draft Medium Term Financial Plan 2022/23 – 2025/26

Annexe 2 - draft General Fund Revenue Budget Summary 2022/23

Annexe 3 – statement of key variations by service line from the baseline 2021/22 budget

Annexe 4 – draft Fees & Charges for 2022/23

Annexe 5 – draft General Fund Capital Programme 2022/23

Annexe 6 – schedule of projected General Fund usable reserves and provisions 2022/23

2. Recommendation for Overview and Scrutiny Committee

The Policy O&S Committee consider the draft General Fund Budget and Medium Term Financial Plan (MTFP) 2022/23 and pass comments and observations to the Executive.

3. Recommendation

- 3.1 It is recommended that the Executive, after considering comments from the Policy Overview & Scrutiny Committee, makes the following recommendations to Council, to:
1. agree a £5 increase in Waverley's Band D Council Tax Charge for 2022/23 with resultant increases to the other council tax bands;
 2. agree to continue the Council's existing Council Tax Support Scheme at the current levels;
 3. agree to extend Waverley's council tax hardship fund to help those council taxpayers most financially affected by the pandemic, as set out in this report, with the final scheme details and criteria delegated to the S151 Officer in consultation with the Finance Portfolio Holder;
 4. agree to make no change to Fees and Charges for 2022/23 except for those proposed in Annexe 4, including the new approach for planning pre-application fees;
 5. approve the General Fund Budget for 2022/23 as summarised in Annexe 2, incorporating the baseline net service cost variations included at Annexe 1 and Annexe 3;
 6. approve the General Fund Capital Programme as detailed in Annexe 5; and
 7. approve the specific use of reserves to mitigate the Covid-19 uncertainty and other emerging economic risks including inflation; the estimated expected reduction in Retained Business Rates and New Homes Bonus funding over the Medium-Term Finance Plan period, and the other reserve movements as set out in Annexe 6.

4. Reason for the recommendations

- 4.1 The General Fund Budget is a major decision for the Council and setting a balanced budget is a statutory requirement. Scrutiny of these MTFP 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 in mid-2020 to take steps to address the significant projected net General Fund Budget shortfall so that the Council can continue to function. A revised budget for 2020/21 was set in August 2020 and the medium-term financial projections were updated in February 2021 alongside the budget setting report for 2021/22. Despite a very welcome - but one-off - respite in 2022/23 from the continuing decline in central funding, the latest MTFP for the subsequent years ending 2025/26 continues to project future financial pressures, and opportunities, to enable the Council to take action to ensure sufficient funding is in place to deliver services.

5. Waverley's Medium Term Financial Plan 2022-23 – 2025/26 (MTFP)

- 5.1 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 funding and restrictions, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, sources of income etc. It also includes the identification of the risks faced by Waverley. The draft 2022/23 budget is set in the context of the latest MTFP.

5.2 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.

5.3 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.

5.4 Following on from the Contingency Revised 2020/21 Budget approved by Council in August 2020, 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 in December 2020. A further comprehensive review of the Plan was agreed by Council in February 2021 during the 2021/22 budget-setting cycle. Given the ongoing uncertainty and Covid-19 impact on Waverley's finances, including key income areas, officers have undertaken detailed monitoring against budgets throughout the year, reporting this to O&S and Executive on a quarterly basis. Sound financial control and effective work with contractors has resulted in the 2021/22 budget holding up well during the year and the expected outturn remains on or close to budget excluding the £1m Covid-19 contingency provision. However the final position will not be known until April 2022 when any realignment of reserves and contingencies will be reported as appropriate. When outturn is known, reserves will be reinstated in line with the original Council approval.

5.5 The Council's MTFP ending 2025/26 has been updated to include the latest General Fund assumptions and projections, including for 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 remain on a significant scale. The report discusses the strategies for addressing the financial challenges to protect vital services and put

the council in a more sustainable financial position, but also highlights the residual budget shortfall projected over the next four years.

- 5.6 The updated MTFP projection is included in **Annexe 1** which details the revised projections and assumptions for the four year period. The changes from the balanced 2021/22 position (approved in February 2021) are based on a review of the ongoing impact of the items first identified in the Contingency Revised Budget as well as new emerging issues and cost pressures. As described in Section 5 below, the latest MTFP projections show an estimated total cumulative gross budget shortfall, before compensating measures, over the four year period of £14.8million. As described in Section 6 below, currently a cumulative total of £12.8million of compensating measures over the same 4 year period have been identified.
- 5.7 The principal aim of the revised MTFP is to protect core services. Drawing on reserves to fund ongoing costs would not be a sustainable position given that Waverley's reserves are finite. However, given the ongoing impact of the pandemic on Waverley's finances, it was agreed by Council in August 2020 and again in the 2021/22 budget that, exceptionally, targeted and temporary drawing on, and/or repurposing of, specific reserves was unavoidable to protect services and funding to community organisations. More details on the latest proposals on reserves are included later in the report.
- 5.8 The budget and MTFP projections are being prepared with a range of assumptions made in very uncertain economic conditions, including rising inflation. Therefore, the figures are volatile, particularly with regard to the timing and extent of recovery of income streams impacted by the pandemic. The February 2021 MTFP 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.

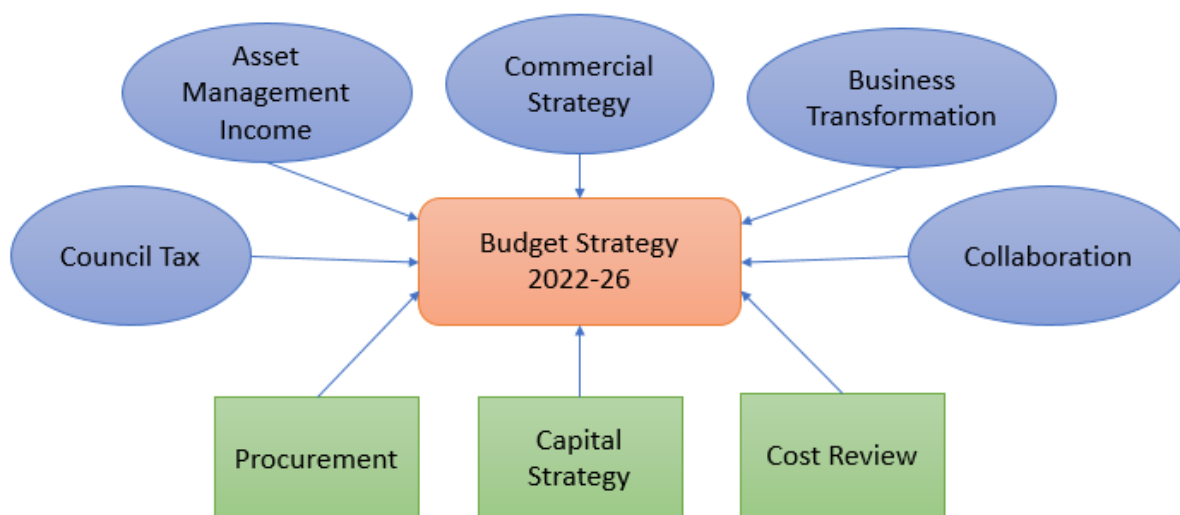
6. Budget Pressures Summary

- 6.1 As the impacts of Covid recede, we are seeing inflation emerging as an equally severe threat on top of the forecast loss of our share of central government funding. The following table shows the main budget pressures projected over the MTFP period. Further details are provided in **Annexe 1** from where the data is extracted.

	2022/2023	2023/2024	2024/2025	2025/2026
Anticipated Budget Variations	Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base	Change from 2024/2025 Base
	£'000	£'000	£'000	£'000
Contingency budget, ongoing impact – costs		-20	-106	
Contingency budget, ongoing impact - income	-998	-966	-648	
Covid-19 Income Claim	460			
Covid-19 General Govt. funding for costs	457			
Inflation and contractual increases	959	862	752	639
National Insurance increase	146			
Services Grant	-138	138		
Fair Funding Review - Business Rate Retained Income		700	700	400
One-off capital receipts funding for Business Transformation team	220			
Borough Elections Reserve deferred contribution		30	-30	
Contingency for savings target achievement risk	-111			
Unavoidable Budget Adjustments	511			
Budget Growth Requests	883	-429		-40
Budget Challenge (2021/22) - one year impact	120			
Lower Tier Service Grant	42	89		
New Homes Bonus	-636	1,613		
Council Tax Collections Fund Adjustments	-227	-50	-50	-50
Covid-19 Impact Provision	-1,000			
Use of reserves for Covid-19 Impact Provision	1,000			
Budget Shortfall	1.688	1.967	618	949
From 2021/22 Base	1.688	3.655	4,273	5,222
Total over MTFP	1,688	5.344	9.617	14.839

7. Budget Strategy

7.1 The framework for Waverley's strategy for addressing the budget shortfall is illustrated below. The themes in squares relate to ongoing actions, the four ovals indicate the principal measures identified in the strategy.



7.2 Our ability to take measures to fund increased costs and replace lost income is heavily regulated and also under pressure. Examples include our property investment strategy, which has been curtailed by changes to Public Works Loan Board financing criteria, and historically low interest rates which have reduced our interest income from funds on deposit. We continually look for new opportunities, including collaboration with others, to improve our effectiveness and efficiency. The following table shows the expected benefit of the strategic measures projected over the 4-year MTFP period. Further details are provided in **Annexe 1** from where the data is extracted.

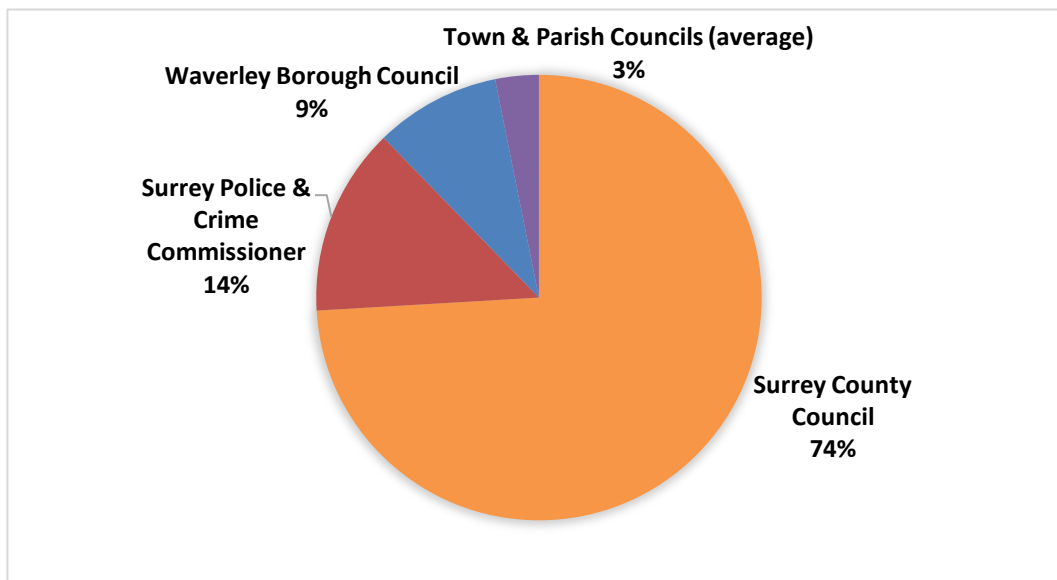
MTFP Target Measures 2022/23 to 2025/26

	Change from 2021/2022 Base £'000	Change from 2022/2023 Base £'000	Change from 2023/2024 Base £'000	Change from 2024/2025 Base £'000
Treasury Management Interest	115			
Car Parking Fees & Charges	730	220	220	
Cost review	23	12		
Asset Management Strategy	10	295	155	100
Commercial Strategy	128	105	71	
Business Transformation				
- WBC	248	122	134	
- Collaboration with GBC	150	200	200	150
Council Tax increase in WBC charge	282	220	220	225
Total Target savings	1,689	1,174	1,000	475
From 2021/22 Base	1,689	2,862	3,862	4,338
Total over MTFP	1,689	4,551	8,414	12,751

8. Funding for Waverley's Services

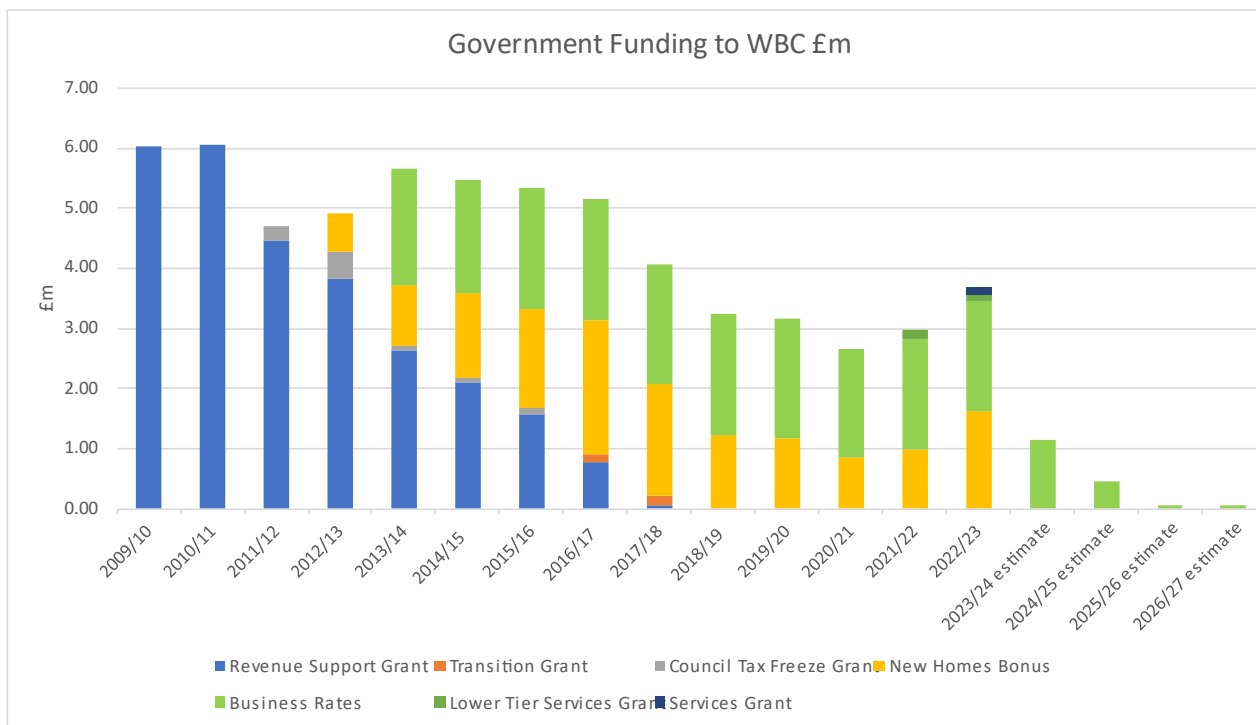
8.1 As well as collecting council tax to support its own budget, by law Waverley has to collect council tax for Surrey County Council, Surrey Police and all town and parish councils in the Borough and this money is paid over to those organisations. The Government restricts the amount that council tax 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.

8.2 The total band D council tax charge in 2021/22 is £2,091.45 split as follows:



8.3 The amount of council tax that will be paid to each of the precepting bodies, including Waverley, Surrey County Council, Surrey Police 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/or 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.

8.4 Waverley's Revenue Support Grant from the Government is zero. There has been a dramatic reduction in our core government funding over the years from £6m in 2010/11.



- 8.5 Waverley currently budgets to retain £1.8m of the £38m business rate base as its core (around 5%) funding for general fund services. This core element is derived from a Government formula which determines each Council’s safety net position against its ‘baseline need’ for funding. A second potential variable element 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 fluctuate according to appeals from rate payers and there is significant uncertainty about Waverley receiving any further funding so no amount has been included in the 2022/23 budget. The Government announced in the autumn that it was delaying, again, 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.
- 8.6 The ‘structural deficit’ in Waverley’s budget arising from service cost inflation, equating to £0.9m 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 2022/23 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.
- 8.7 In 2016/17 the Government informed a number of councils, including Waverley, that they would have Revenue Support Grant (RSG) 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 was specifically referred to in the Dec 2021 Finance Settlement. It is expected that this will be addressed as part of the main review of business rate funding in 2022.

8.8 The Government announced the 2022/23 Local Government finance settlement for consultation late in December 2021. The headlines are as follows:

- No negative grant
- Retained business rates for Waverley at same safety net level of £1.8m
- New homes bonus £1.6m but no guarantee of payment in future years
- Council Tax increase limit for Borough Councils of £5 band D or up to 1.99%, whichever is the higher
- no limit on council tax increases for town and parish councils
- Surrey County Council council tax increase limit up to 3% (including the 1% for adult social care costs).
- One-off service grant of £138k to pay for a range of ongoing costs including the new National Insurance levy (annual cost to Waverley of £182k)

9. **General Fund Budget 2022/23**

9.1 A summary of the draft budget for 2022/23 is set out in **Annexe 2** and the changes from the 2021/22 base budget are summarised in the MTFP in **Annexe 1** with further detail of variations for certain key items presented in **Annexe 3** including unavoidable budget adjustments. One unavoidable cost increase is due to the introduction of the National Insurance NHS/Social care levy. Initially, Government said that they would compensate public sector bodies for this additional cost which is £182k p.a. to Waverley, falling £146k to General Fund and £36k to HRA. While we have no indication when this levy may be reversed - if at all -, the government has given a one-off grant of £138k in 2022/23 alone that is intended to “include” funding for the levy as well as other pressures.

9.2 The budget has been prepared on an “as-is” basis from the known 2021/22 baseline, then adjusted for known variations and measures including inflation and the estimated Covid-19 impact on the council’s core income and expenditure. The estimated direct Covid-19 impact on the budget in 2022/23 is still £1.7million in total compared with the pre-Covid baseline 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 continue to have on Waverley’s income and expenditure budgets in the future, it is proposed to continue with the agreed approach of including a £1m provision across the period 2022-25 but with an aspiration to review and release this, however gradually and only if it prudent to do so over the MTFP period.

9.3 The General Fund Budget Summary at **Annexe 2** shows a balanced budget in 2022/23. There are no proposed cuts to services or reductions in overall funding for community organisations included in the draft 2022/23 General Fund budget. This budget is balanced after allowing for the maximum allowable council tax increase of £5 at Band D (or 2.6% or 9.6 pence per week) and the estimated

savings measures that will be delivered from the property, business transformation and the commercial programmes.

9.4 In 2020/21 and for the first quarter of 2021/22 the Government provided funding towards the impact of Covid on Waverley's general finances including loss of income and leisure. This significantly fell short of full compensation and the MTFP has had to, and continues to, make allowance to address the shortfall through savings measures and use of reserves. It is not expected that any further funding will be available in 2022/23 or future years, despite the ongoing impact.

9.5 The budget strategy outlined in paragraph 6.1 identifies a series of other measures being taken to address the financial challenges and help protect funding for front line services. The estimated savings proposals are included in **Annexe 1** and **Notes D-H** thereto and include:

- Extended business transformation and efficiency projects beyond the current programme
- Collaboration with Guildford Borough Council and other councils, including shared service opportunities
- Review of property investment in the light of new Public Working Loans Board (PWLB) rules
- Ongoing cost control and close monitoring of expenditure
- Further opportunities for commercial thinking and income generation, as far as the law and Government policy allow.

9.6 In recent years the government have been pairing back on the calculation for New Homes Bonus, including the reduction of years for legacy payments. The MTFP agreed in February 2021, included a further reduction following an announcement by government that it would review its formula again. The finance settlement received in December 2021 confirmed that the government has delayed its review of the New Homes Bonus again by another year. Whilst this temporary reprieve in funding reduction is welcome, and has enable the inclusion in the 2022/23 draft budget of a range of one-off additional high priority items, we are forecasting to suffer a significant reduction in 2023/24 and subsequent years.

9.7 There are a number of growth proposals, some one-year only, and others recurring, all as set out in **Annexe 1** and **Note C**, of which the most notable:

- Thriving communities fund (one off additional support – to be reviewed)
- Council tax Hardship (initial contribution, to be reviewed) – see para 13.1 below
- Information manager (recurring)
- Funds bid officer (recurring but self-financing after year one)
- Economic Development additional resource (recurring)
- GDPR Data Audit (one-off)

More details about these growth proposals are included in **Annexe 1, Note C.**

9.8 In terms of Waverley's car park budgets, pre-pandemic income from car parks was budgeted at £5.1m. The impact of Covid-19 had a sudden and significant impact

on the pre-pandemic income level, as explained elsewhere in this report. Waverley's income fell short of this budget by almost £2m in 2020/21 and is budgeted to still be £1.6m lower in 2021/22. As set out in Note A to Annexe 1 it is estimated it will take a further three years before we can return to a base income similar to that of pre-pandemic level. In 2021, the Council approved a new car park strategy that was based on the individual characteristics of, and demands on, Waverley's car parks which allows specific site rates to be increased or decreased to respond to the market as appropriate. As car park usage rebounded and in light of the sustained financial pressures generally, the council approved revised car park tariffs, which took effect from 1 November 2021. Over time this will help restore income to the council. It was also identified in the strategy that Waverley needs to invest to catch-up in maintenance improvement in a number of its car parks, and the draft budget includes an additional contribution towards maintenance improvement of £250,000 per annum from 2022/23. This is over and above specific capital bids for particular major schemes that will continue to be presented in the capital programme and funded from capital resources.

- 9.9 In July 2021, Waverley Borough Council and Guildford Borough Council agreed to a long-term collaboration and approved the first stages of appointing a joint Chief Executive and a joint senior management team. Further collaboration opportunities will be identified once this platform is in place. In total, the collaboration report from July 2021 identified a potential opportunity for each council to save in the region of £700,000 from the collaboration over and above what would be achievable individually. These savings have been reflected in the MTFP at Annexe 1 and will be monitored through the normal quarterly reports to Overview and Scrutiny and Executive over the coming years. As expected, in order to set up the collaboration, some one-off upfront costs are necessary. These include costs of preparing the Inter-Authority Agreement, undertaking the necessary HR work to deliver the senior management team, initial IT adaptation and additional resource required to support the ongoing governance process. Some of these costs will fall in Quarter 4 of 2021/22, and these will be met from existing Business Transformation budgets. One-off costs that can be identified with certainty at this stage that fall in 2022/23, have been included in the growth proposals in Note C to Annexe 1. There are likely to be further one-off costs, that could include redundancy costs, and these would be subject to a separate approval process, supported by a business case.

10. General Fund Reserves within the scope of the MTFP

- 10.1 A summary of the relevant General Fund reserves is included in **Annexe 6**. This table builds on the latest monitoring position and takes account of the Council approvals in the 2021/22 budget. Whilst there is still uncertainty predicted in future years, the finances are stabilising and the agreed budget strategy set out in paragraph 6.1 continues to be effective. It is proposed that in May 2022 when the 2021/22 outturn is known, a review of reserves will be undertaken. Insurance reserves will be included in this review in the light of the recent change of insurer.
- 10.2 In February 2021 the Council agreed to create a Covid-19 budget risk contingency reserve of £2m to 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 is subject to the approval of the Management Board in consultation with the Finance Portfolio Holder. The 2021/22 budget included 50% (£1m) of

that, with a further £670k in 2022/23 and £330k in 2023/24 identified in the MTFP. To date, the budget estimates are holding up well and it is partly as result of the one-off, but still welcome, respite of NHB that we can currently forecast that there will not be a need to draw down from the £1m in 2021/22. However, the actual position will not be known until the outturn for the year is finalised and significant risks and economic uncertainties remain. When a year-end position is known, reserves will be reinstated in line with the original Council approval. Looking forward inflation and other economic threats as suggested by the OBR, from Covid-19 and beyond, are of immense concern and keeping the £1m in reserves for 2023/24 and 2024/25 remains prudent.

10.3 The business rate equalisation reserve was established by the Council a number of years ago when the Government changed the overall 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 including:

- the risks of Government cutting the retained business rate funding to Waverley
- declining rateable values reducing retained funding
- significant appeals reducing retained funding

10.4 The Council has agreed that £1.8m of the reserve be included in the MTFP as a draw down against the projected reduction in business rate retained income following the forthcoming Government financial 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 2023/24. 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.

10.5 The Asset Investment Void provision is an important revenue mitigation supporting the Asset 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 or where a rent-free period is now expected even when the property is let. In the light of recent investment decisions and the tightening of rules around new investment property acquisitions, a review of this provision has been undertaken. Our recent annual contributions to this provision have tracked at £400k, but the balance currently held, plus a now reduced annual contribution to £200k are considered to be sufficient mitigation for the foreseeable future. However in the light of the demands on the capital programme and following a review of landlord maintenance obligations on Waverley’s larger property estate, both commercial and operational, it is proposed that the remaining £200k is transferred each year into a property maintenance sinking fund. This will enable essential repairs and health and safety works to be agreed quickly and efficiently during the year and relieve pressure on the capital programme to enable more value-enhancing projects. Officers will agree a governance process to facilitate this.

10.6 The future financial resilience of the Council is dependent upon the availability of reserves to manage financial shocks such as we have seen with the pandemic. Ideally, the use of reserves should be limited as far as possible to mitigating the

temporary impact of these shocks, 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.

11. Key Assumptions

- 11.1 The detail of the estimated extended impact of the pandemic is included on **Annexe 1** and **Note A** which builds on the assumptions made in the 2021/22 budget. The underlying assumption is that the income streams will fully recover within the time period of the MTFP.
- 11.2 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.
- 11.3 The core funding for the General Fund Capital Programme is from Revenue Contributions from the revenue budget. Prior to Covid, this tracked at over £1m annually but was reduced temporarily to £0.58million in the 2020/21 revised and £0.88m in the 2021/22 base budgets. This reduction followed a corporate projects review under the Contingency Budget. Acknowledging that continuing at this reduced level may not only impact investment in existing and new facilities, assets and climate change initiatives but also lead to health and safety issues, it is proposed to resume funding in 2022/23 to its pre-Covid baseline. More detail on the 2022/23 draft capital programme is included later in this report.
- 11.4 Inflation including pay and contractual increases assumes that rates will continue at the current high levels and will not return to the 2% Bank of England target until much later in the MTFP period. Current Office of Budget Responsibility inflation forecasts look to be high compared to the 2% Government inflation target for the period of the MTFP. The inflation figure included in the MTFP at **Annexe 1** 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 2022/23, which is also applied to Councillors' allowances, the Joint Negotiating Committee (JNC) has not yet agreed the pay claim submitted by the Union in December. An indicative amount for pay inflation, as well as other inflation commitments, are incorporated within the draft balanced budget. If the matter is resolved before the Executive meeting in February, the budget will be revised and, in recommending the draft Budget to Council, the Executive would be approving the pay award (Constitution Part 3: 3(o)).
- 11.5 Waverley's MTFP forecasts significant reductions in Government funding over the next four years based on previous announcements and guidance from the Government itself pending the so-called "Fair Funding Review". This Review has already been delayed for several years and it was 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 2022/23. 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. It is hard to overstate how the uncertainty these delays impact on our ability to properly plan ahead.

12. **Risk**

- 12.1 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
- investment in commercial property needed, with new borrowing restrictions in place. Government policy change has affected the Council's ability to undertake prudent 'yield' investments
- Major change programmes underway including transformation of customer services across the council and the collaboration with Guildford Borough Council.

We do not 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, including backdated refunds, plus reducing total rateable value in the Borough, for example the impact of permitted development on commercial premises
- 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 Fair Funding Review

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 on inflation and interest rates

13. Fees and Charges

- 13.1 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 a general freeze has been proposed but with some exceptions and some inflationary increases which are proposed for 2022/23 where appropriate. While in prior years charges have generally been increased in line with estimated CPI inflation at this stage, for 2022/23 exceptions are considered appropriate for the most vulnerable of our residents who are already under immense financial, and non-financial, stress. Details of the proposed fees and charges from 1 April 2022 are included at **Annexe 4**. Reviews of fees and charges will continue during in 2022 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.
- 13.2 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.
- 13.3 The commercial strategy highlights the need to review existing income sources to generate additional revenue. One area that has been considered is planning pre-application income. As per the Planning Improvement Plan, the Head of Planning and Head of Commercial Services have jointly developed a revised approach with the objectives being:
- Greater customer choice and differential pricing option
 - Better service and value for money for customers
 - More commercial approach with cost recovery
 - Increased take up and income

The draft budget includes an additional income target for pre-application fees of £40,000 achieved over two years to reflect a proposed revision to the charging structure and approach that will be implemented early in the 2022/23 financial year. The additional income arises mainly from projected increased take-up of the new service. The proposed scheme is very similar to the one in place in Guildford Borough Council.

14. Council Tax Support Scheme

- 14.1 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. 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. It is, therefore, recommended that the current scheme remains unchanged for 2022/23.

However, in the light of the additional strain based on council tax payers due to the pandemic and in light of rising household bills, it is considered necessary to make an addition contribution to a Council Tax Hardship fund of £50,000.

15. General Fund Capital

- 15.1 Each year, the Council reviews its 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. As the external funding landscape becomes both increasingly important and yet more fragmented and competitive, it is proposed to appoint a dedicated officer to support bids. One criterion for this role is that it should become self-financing after its first year.
- 15.2 The draft 2022/23 Capital Programme bids amount to £3.4 million as shown at **Annexe 5** to this report of which £0.9m is funded from the General Fund revenue contribution referred to earlier. There is a range of projects that are being funded from external sources, including from SCC's Empty homes funding, that are not included on this schedule as they already have approved funding.
- 15.3 Since 2020/21 the baseline "as-is" budget has included £100k annually to support the delivery of the Climate Change action plan. In 2020/21 an amount of £200k was also approved as a one-off "pump prime" fund, to support the delivery of expected climate change action plan projects. Any project and initiative costs beyond the identified funds will be requested individually and CIL and external funding will be secured wherever possible. This draft budget includes a proposal to top up the pump prime funding by a further £100k to support delivery of the Climate Change action plan along with external funding that the Council continues to be successful in securing.

16. Local Government Act 2003 – Financial

- 16.1 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.

17 The Robustness of the Estimates

17.1 The 2022/23 budget has been prepared following a period of unprecedented uncertainty and risk due to the impact of the pandemic on the council and its finances. Whilst these conditions continue, it is becoming possible to budget with more certainty in some key areas as recovery develops. A prudent assessment of income has been undertaken and 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.

17.2 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 Fair Funding review due in 2022 – 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 2022/23. Further adjustments may be possible in future years but the outcome of the Government's Fair Funding 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

17.3 In view of the level of awareness amongst Members and the action taken to produce Waverley's draft Budget for 2022/23, 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.

18. Adequacy of Reserves

18.1 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 and the 2021/22 approved budget 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. The position

will be reviewed in April/May when the outturn is known but current forecasts indicate that the reserves are holding up well against plan.

- 18.2 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.
- 18.3 The main risks to reserves in 2022/23 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.
- 18.4 In the light of the identified future significant pressures, the levels of combined balances as detailed in this report are considered adequate.

19. Budget monitoring

- 19.1 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 budget in 2021/22 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 Overview and Scrutiny 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 2022/23 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 2022/23 are sound measures to address the current high level of uncertainty.

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

- 20.1 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.

21. Implications of decision(s)

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

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

- 21.2 Risk management

Detailed in Section 11 above.

22. Legal

- 21.1 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)

23. Equality, diversity and inclusion

- 23.1 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.

24. Climate emergency declaration

- 24.1 There are no direct implications arising from this report. The budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan delivery plus a one-off £100k contribution to the Climate Change fund to support further pump priming of Climate Change projects.

25. Consultation and engagement

- 25.1 The Policy Overview and Scrutiny Committee will scrutinise the General Fund budget proposals at its meeting on 25 January, following an informal briefing on the detailed budget proposals.

26. Other options considered

- 26.1 Set out within the papers.

27. Governance journey

- 27.1 Executive 8 February 2022
Council 22 February 2022

Background Papers

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

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Agreed and signed off by:

Legal Services:

Strategic Director:

Portfolio Holder: