

WAVERLEY BOROUGH COUNCIL

RESOURCES OVERVIEW & SCRUTINY COMMITTEE

23 JANUARY 2023

EXECUTIVE

7 FEBRUARY 2023

COUNCIL

21 FEBRUARY 2023

Title:

GENERAL FUND BUDGET 2023/24

MEDIUM TERM FINANCIAL PLAN 2023/24– 2026/27

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

Head of Service: Peter Vickers, Executive Head of Finance

Key decision: Yes

Access: Public

1 Purpose and summary

This report sets out the draft General Fund Budget for 2023/24 and Medium-Term Financial Plan (MTFP) ending 2026/27. 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 2023/24 – 2026/27

Annexe 2 - draft General Fund Revenue Budget Summary 2023/24

Annexe 3 – statement of key variations by service line from the baseline 2022/23 budget

Annexe 4 – draft Fees & Charges for 2023/24

Annexe 5 – draft General Fund Capital Programme 2023/24

Annexe 6 – schedule of projected General Fund usable reserves and provisions 2023/24

2. Recommendation

2.1 It is recommended that the Executive, after considering comments from the Resources Overview & Scrutiny Committee, makes the following recommendations to Council, to:

- i) agree a 2.99% increase in Waverley's Band D Council Tax Charge for 2023/24 with resultant increases to the other council tax bands;

- ii) agree to continue the Council's existing Council Tax Support Scheme at the current levels;
- iii) agree to a general inflationary increase to Fees and Charges for 2023/24 except for car parking charges and some exceptions as proposed in Annexe 4;
- iv) note the appropriation of garages from the HRA to General fund and approve an increase of 4% to the weekly charge for all garages from 1 April 2023;
- v) approve the General Fund Budget for 2023/24 as summarised in Annexe 2, incorporating the baseline net service cost variations included at Annexe 1 and Annexe 3;
- vi) approve the General Fund Capital Programme as detailed in Annexe 5; and,
- vii) approve the reserve movements as set out in Annexe 6.

3. Reason for the recommendations

- 3.1 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. The Covid-19 negative impact on the finances has mostly been overcome through the swift response and actions taken by the council. This challenge was immediately followed by the impact of the global economic crisis driving up UK inflation and interest rates and the resulting current cost of living crisis. The council has been well positioned to respond to these challenges and whilst the latest MTFP for the subsequent years ending 2026/27 continues to project future financial pressures, and opportunities, the council is able to take action to ensure sufficient funding is in place to deliver and maintain services.

4. Waverley's Medium Term Financial Plan 2023-24 – 2026/27 (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 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 2023/24 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.

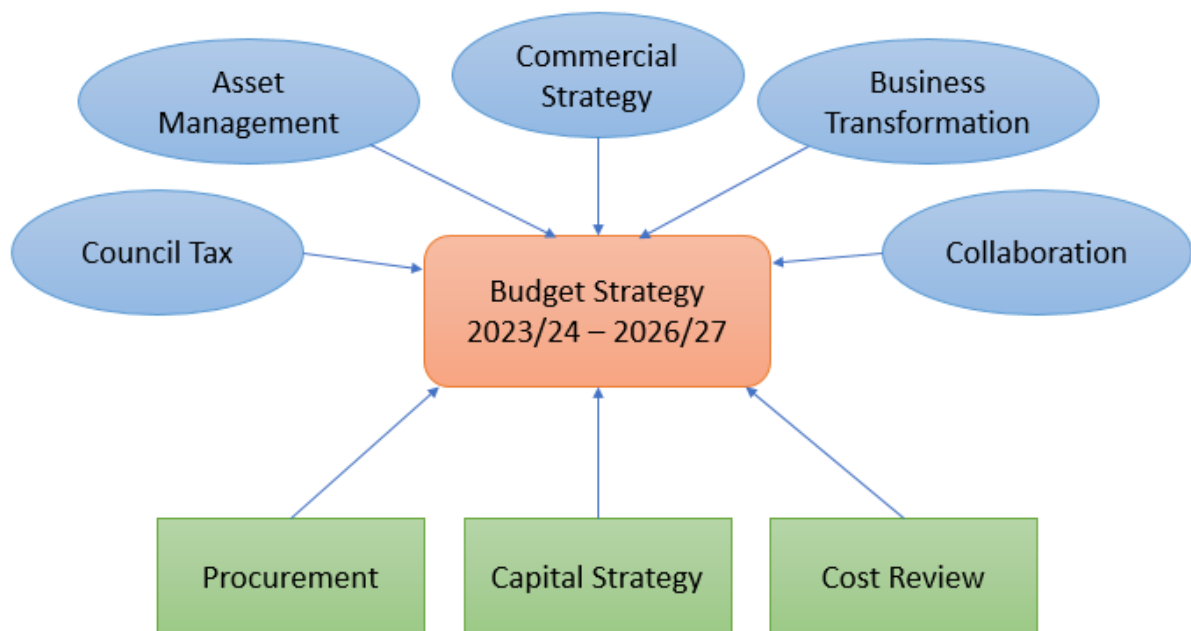
4.4 The Council's MTFP ending 2026/27 has been updated to include the latest General Fund assumptions and projections, including for the reserves earmarked for specific purposes that may have to be drawn upon to meet the MTFP budget shortfall. This report sets out the ongoing material financial pressures, 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.

4.5 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 2022/23 position (approved in February 2022) are based on a review of the ongoing impact of the items first identified in the Contingency Revised Budget (August 2020) as well as new emerging issues and cost pressures. As described below, the latest MTFP projections show an estimated total cumulative gross budget shortfall, before compensating measures, over the four-year period of £17.8million. As described in Section 5 below, currently a cumulative total of £12.6million of compensating measures over the same 4-year period have been identified.

4.7 The budget and MTFP projections are being prepared with a range of assumptions made in very uncertain economic conditions, including high inflation. Therefore, the figures are volatile, particularly with regard to the timing and extent of recovery of income streams such as car parking impacted by the pandemic and the cost-of-living crisis. The February 2022 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.

5. **Budget Strategy**

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



5.2 Our ability to take measures to fund increased costs and replace lost income is heavily regulated and under pressure. Examples include our property investment strategy, which has been curtailed by changes to Public Works Loan Board financing criteria, and until recently historically low interest rates which have reduced our interest income from funds on deposit. Interest rates are currently higher, and assumptions have been updated, with the growth in income supporting the MTFP in the short term. We continually look for new opportunities, including collaboration with others, to improve our effectiveness and efficiency. Details of the expected benefit of the strategic measures, projected over the 4-year MTFP period, are provided in **Annexe 1**.

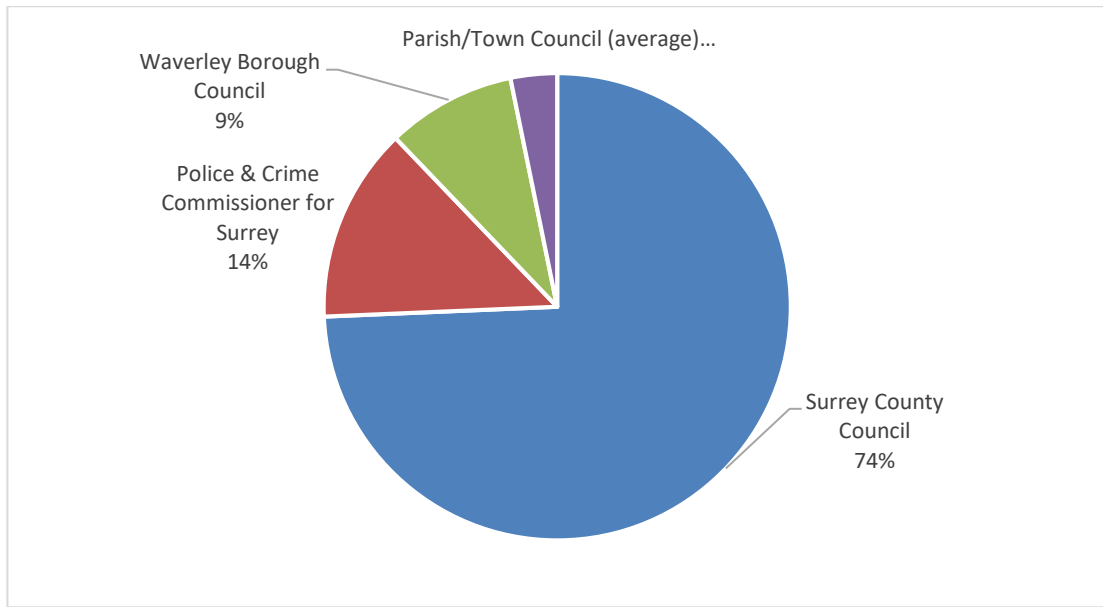
6. Budget Pressures

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. Further details are provided in **Annexe 1**.

7. Funding for Waverley's Services

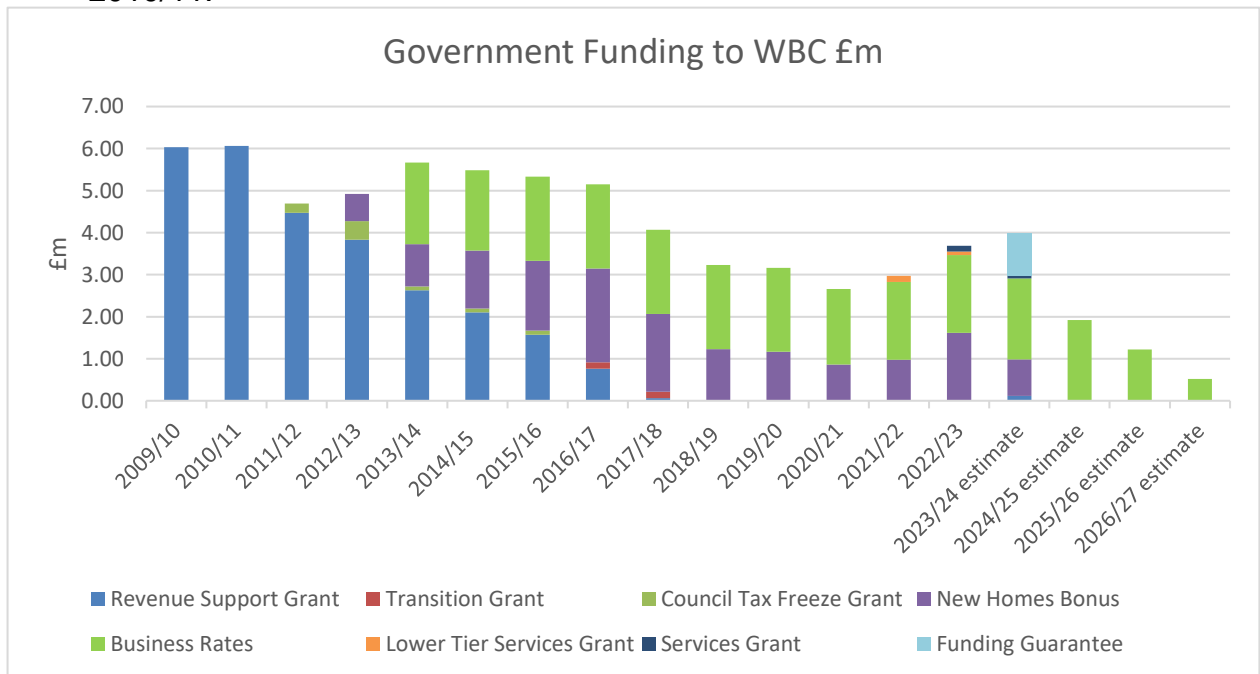
7.1 As well as collecting council tax to support its own budget, by law Waverley must collect council tax for Surrey County Council, Surrey Police and all town and parish councils in the Borough and this money is paid over to those organisations. The Government restricts the amount that council tax can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

7.2 The total band D council tax charge in 2022/23 is £2,188.14 split as follows:



7.3 The amount of council tax that will be paid out 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 council tax collected compared to precepts paid out will result in an adjustment to the precept in the following year.

7.4 There has been a reduction in our government funding over the years from £6m in 2010/11.



7.5 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 Fair Funding Review. This review has been delayed for several years and it was announced in December that the review is delayed again until after financial year 2024/25. This delay has been reflected in the reprofiling of the expected reduction in Business Rate Retained Income in the MTFP and this relieves cost pressure in 2023/24 and 2024/25 (see annex 1).

Officers have taken a cautious view of the impact of these reviews on Waverley's budget given previous 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 'Fair Funding Review' is forecast to sit alongside the next government spending review, therefore a delay is expected of a further two years. The MTFP proposes to initially offset the impact of reducing retained business rate income using the business rates equalisation reserve. The uncertainty of these delays impact on the Councils ability to plan ahead.

- 7.6 Waverley currently budgets to retain £1.9m of the £38m (around 5%) business rate collected as its baseline funding for General Fund services. This baseline funding is derived from a government formula which determines each Council's "relative needs" and has been guaranteed until the completion of the Fair Funding review.
- 7.7 Waverley's budget suffers from a 'structural deficit' in Waverley's budget arising from service cost inflation, 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 2023/24 this is 2.99% equating to a maximum of £337k additional council tax income. As Government funding has fallen away, the Council has reluctantly become increasingly reliant upon council tax funding and independent income including fees and charges.
- 7.8 In 2016/17 the Government informed several 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 remains and it was specifically referred to in the December 2022 Finance Settlement. It is expected that this will be addressed as part of the main review of business rate funding in coming years.
- 7.9 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 finance settlement received in December 2022 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 enabled the inclusion in the 2023/24 draft budget of a range of short term additional items, we are forecasting to suffer a significant reduction in 2024/25 and subsequent years.
- 7.10 The Government announced the 2023/24 Local Government finance settlement for consultation late in December 2022. The headlines are as follows:
- No negative grant
 - Revenue Support Grant of £113k to replace Local Council Tax Support Grant (loss of £80k) and Family Annexe Council Tax Discount Grant (loss of £19k)
 - Retained business rates for Waverley at safety net level of £1.9m
 - New homes bonus £0.9m but no guarantee of payment in future years
 - Council Tax increase limit for Borough Councils of £5 band D or up to 2.99%, whichever is the higher
- A £5 increase is equivalent to a 2.6% increase for Waverley Borough Council.

- No limit on council tax increases for town and parish councils
- Surrey County Council council tax increase limit up to 4.99% (including the 2% for adult social care costs).
- One-off service grant of £78k
- One-off Funding Guarantee grant of £1m to support a 3% increase in Core Spending Power
- Council Tax Support Fund of £117k

8. General Fund Budget 2023/24

- 8.1 A summary of the draft budget for 2023/24 is set out in **Annexe 2** and the changes from the 2022/23 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.
- 8.2 The budget has been prepared on an “as-is” basis from the known 2022/23 baseline, then adjusted for known variations and measures including inflation and the estimated Covid-19 impact on the council’s income and expenditure. The estimated direct Covid-19 impact on the budget in 2022/23 is still £0.771million in total compared with the pre-Covid baseline, this impact is forecast in the MTFP to be resolved by 2025/26.
- 8.3 The General Fund Budget Summary at **Annexe 2** shows a balanced budget in 2023/24. There are no proposed cuts to services included in the draft 2023/24 General Fund budget. This budget is balanced after allowing for the maximum allowable council tax increase of 2.99% and the estimated savings measures that will be delivered from the property, business transformation, commercial programmes and collaboration programmes.
- 8.4 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 fell significantly short of full compensation and the MTFP has had to, and continues to, make allowance to address the shortfall through savings measures. It is not expected that any further funding will be available in 2023/24 or future years, despite the ongoing impact.
- 8.5 The budget strategy outlined in paragraph 5.1 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:
- Collaboration with Guildford Borough Council
 - Ongoing delivery of Asset Management Income
 - 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

The Business Transformation programme is now under review in light of the new council structure, and therefore prior targets for projects which have not yet started have been removed at this stage. Once this review has been undertaken, projects

will be brought forward to members and included in future MTFP forecasts to support future years forecast budget gaps.

- 8.6 There are a number of growth proposals, some one-year only, and others recurring, all as set out in **Annexe 1** and **Note C**.

Two key growth items have been identified in Annexe 1, Note C regarding the planning service:

- Local Plan Part 1 Review and Update – there is a statutory requirement to review the local plan part 1 within 5 years of its adoption, following this review an update to the LPP1 may be required. Costs of this project are identified at circa £850k over the following three years. The net growth position reflected in Note C shows the forecast costs over the MTFP period following use of available reserve.

- Development Control – a staffing review of development control is underway and identified need for additional resource in planning has been identified. A Planning White paper is due in the spring, which may give opportunity to increase income through proposed increase fees. However in the meantime, a budget provision for growth of the planning service has been included in the MTFP. To ensure transparency and scrutiny, this budget provision requires a full business case to come through the committee process once the review is complete.

- 8.7 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. This has now taken place and further collaboration opportunities will be identified over the coming period with an aim to achieve further efficiencies. 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. 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. An invest to save reserve was provided in 2022/23 which would be utilised if required for these one-off costs.

9. Inflation

- 9.1 There remains uncertainty regarding high inflation on the MTFP, and this is a sizeable pressure on the General Fund budget. Despite high inflation being mitigated in the current year with improved interest income, the impact of inflation will have further negative impact in future years as inflation compounds, and current forecasts for inflation remain higher than usually anticipated. Bank of England forecasts suggest inflation was expected to fall from mid-2023, as previous increases in energy prices dropped out of the annual comparison. It was then expected to decline to some way below the 2% target in years two and three of the projection. This MTFP assumes the 2% target rate will be returned to in two years' time. Officers have built increased inflation forecasts into the MTFP in the short term, with 9% in 2023/24 and 4% in 2024/25 however these rates remain unknown with more uncertainty than is usual.

- 9.2 The inflation figure included in the MTFP at **Annexe 1**, with detail provided in **Note I** 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).

- 9.3 In terms of the staff pay award for 2023/24, 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)).
- 9.4 Given the significant uncertainty about the impact that Covid-19 and high inflation levels 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 reserve for MTFP risk on **Annexe 6**, but with an aspiration to review and release this, however gradually and only if it prudent to do so over the MTFP period.

10. Income

10.1 Covid-19

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 2022/23 budget. The underlying assumption is that the income streams will continue to recover within the period of the MTFP. Due to the significant financial pressures resulting from the pandemic, it will take several years for some income to recover to normal levels.

10.2 Car Parks

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. Waverley's income fell short of this budget by almost £2m in 2020/21 and is budgeted to still be £1m lower than pre-pandemic levels in 2022/23. As set out in Note A to Annexe 1 it is estimated it will take a further two years before we can return to a base income like 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 considering the sustained financial pressures generally, the council approved revised car park tariffs, which took effect from 1 November 2021. Over time this is helping to restore income to the council. It was also identified in the strategy that Waverley needs to invest to catch-up in maintenance improvement in several its car parks, and the budget now includes an additional contribution towards maintenance improvement of £250,000 per annum from 2022/23.

10.3 Leisure Centres

The 2022/23 management fee has now returned to a receipt to the Council, however some activities are still not at pre-Covid-19 levels. A new contract for the leisure centre management contract will be starting in July 2023, the major tender exercise is underway, however final management fee levels remain unknown. At this stage, an assumption that the current management fee that is received from

Places for Leisure is built into the 23/24 budget. This is before the planned capital improvements which will help to improve the revenue position.

There is an identified risk that the contractor will require revenue support in the first two years of the contract to support mobilisation, changes to the centres to reflect the new contract, uncertainty regarding energy costs. The potential for this remains unknown as the procurement process remains underway, however to mitigate this risk a provision has been included in the MTFP for the first two years.

10.4 Garages

Garages were originally provided by the Council under Housing Act powers in connection with the housing provided by the Council. However, over time, a growing proportion of garages have been let privately to generate a rent and increase occupation. Around 20% of the garages are now let to HRA tenants, and 54% are let to private tenants. Consequently, it can no longer be claimed that the primary purpose of these assets is to contribute to the achievement of a housing objective.

Under Section 122 of the Local Government Act 1972 the Council can appropriate Council held property held in the HRA and used for purposes other than housing, where it is no longer held for its original purpose, without consent from the Secretary of State. As the garages are no longer used for meeting a housing objective using the powers under Section 122 631 garages will be appropriated from the HRA to the General Fund on 1 April 2023 at market value. This ensures the Council meets GAAP Accounting requirements and follows the CIPFA Code of Practice.

Following appropriation, a Strategic Review of all garages and ex-garage sites will be carried out and a garage strategy developed. In the meantime, it is proposed that the weekly garage rents increase by 4% in line with HRA rent increases.

10.5 Other income

Additional income targets are built into the budget for 2023/24 and the MTFP. These fall into the Commercial and Asset Management income schedules for which the detail is provided in Annexe 1 Note F and Note H respectively.

11. Fees and Charges

11.1 Fees and charges have been reviewed as part of the budget process, excluding car park fees and charges which were reviewed separately in December 2021. Some Council fees and charges are statutory but for those that can be determined by the Council general inflationary increases are proposed for 2023/24 where appropriate, with some exceptions. While in prior years charges have generally been increased in line with estimated CPI inflation at this stage, for 2023/24 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 2023 are included at **Annexe 4**.

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

- 11.3 The commercial strategy highlights the need to review existing income sources to generate additional revenue.
- 11.4 Reviews of fees and charges will continue during 2023/24 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.
- 11.5 In addition to this, it is proposed a review of break-even services and their charges are undertaken in 2023/24 to ensure recovery of costs is achieved. Delaying this review until the new financial year when there is more clarity regarding inflation and costs will hopefully reduce unnecessary uncertainty and adjustments.

12. General Fund Reserves within the scope of the MTFP

- 12.1 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 2022/23 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.
- 12.2 The business rate equalisation reserve was established by the Council several 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
- 12.3 The Council has agreed that £1.4m 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 2025/26 and 2026/27. 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.
- 12.4 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 and current global economic crisis. 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.

13. Risk

13.1 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 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

Funding:

- Negative Revenue Support Grant still on the agenda – decision deferred regarding Fair Funding Review
- Reducing Homelessness Grant

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

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. In 2023/24 an additional government grant for Council Tax Support Fund is available with both mandatory and discretionary elements to support council tax payers and Discretionary Housing Payments are also available. Waverley officers are proactively supporting households that are most affected by welfare reforms. Experience shows that the take up of discretionary support is low and the Council Tax Scheme remains successful in supporting council taxpayers. It is, therefore, recommended that the current scheme remains unchanged for 2023/24.

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.
- 15.2 The draft 2023/24 Capital Programme amounts to £3.3 million as shown at **Annexe 5** to this report of which £0.7m 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 and the UK Shared Prosperity Fund that are not included on this schedule as they already have approved funding.
- 15.3 Property maintenance requirements in 2023/24 are identified to outweigh the current budget provision for maintenance. Current revenue contributions to the Property Maintenance Fund are £200k, with £200k balances forecast to be available. Identified potential costs are over £900k, leaving a potential shortfall of £0.5m. Given the current and future budget shortfalls, projects that have been put forward by heads of service will be subject to further consideration by the Project Coordination Group. 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 2023/24.
- 15.4 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.

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 quarterly 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 2023/24 budget has been prepared following a period of unprecedented uncertainty and risk due to the impact of the pandemic and global economic crisis 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 high rate of inflation and general 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 and global economic crisis 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 delayed until after 2024/25 – 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 2023/24. 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 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 2023/24, 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. Since the beginning of the pandemic the use of reserves has been stretched to an unprecedented level and required a significant re-purposing of earmarked reserves to mitigate the impact of Covid-19 and economic impacts on the Council's budget.

- 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 Section 151 Officer that a level of £3.2m on the General Fund Working Balance, which is effectively circa 9% of the General Fund service expenditure or equivalent to one month's service spending, satisfies the adequacy requirements of the Local Government Act 2003.
- 18.3 The main risks to reserves in 2023/24 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. If 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, MTFP risk contingency reserve, property maintenance fund, invest to save 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 2022/23 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 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, and impact of the national economic position alongside significant savings being put forward by Heads of Service in the current 2022/23 budget and the draft budget for 2023/24 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 2023/24 are sound measures to address the current 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 13 above.

22. Legal

22.1 It is the annual responsibility of the Full Council to approve the Budget and set the Council Tax.

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. A number of projects in the Capital programme have positive climate change impacts. The budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan.

25. Consultation and engagement

25.1 The Policy Overview and Scrutiny Committee will scrutinise the General Fund budget proposals at its meeting on 23 January 2023, 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 The detailed budget proposals and revised MTFP will be reported to Resources Overview and Scrutiny January 2023, Executive and Council February 2023.

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: