

STRATEGIC FINANCIAL PLANNING – 2022/23

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	1 - 2022/23 Financial Planning Timetable

Summary

This report seeks guidance on the approach to be used in preparing the budget for 2022/23.

Recommendation (s)

That the Panel supports:

- (1) The 2022/23 budget setting strategy, as set-out in this report;**
- (2) The budget setting timetable at Appendix 1.**

1 Reason for recommendations

- 1.1 The recommendations will make the Panel aware of the approach officers are taking to ensure the 2022/23 budget maintains sound financial management of Council resources and the challenges it faces in setting a balanced budget. It also sets out the timetable for the budget process.

2 Background

- 2.1 Local authority finances remain under significant pressure mainly due to Covid-19's disruption of income streams. As a result, the ability of local authorities to maintain financial and service sustainability this year and over the medium-term is being severely tested.
- 2.2 In February 2021, the Council agreed its budget for 2021/22, including a £950k contingency to manage Covid's impact on Council services, with the use of £458k of reserves required to balance the budget.

- 2.3 This report provides an update on the Council's financial position since February, and a proposed approach for setting the 2022/23 budget, along with a timetable (Appendix 1) for presenting the 2022/23 budget to Council in February 2022.

3 2020/21 Final Outturn

- 3.1 The Council's provisional outturn position for 2020/21 shows a net overspend on services of £43k on a net budget of £9.74m, which compares favourably to the forecast outturn reported earlier in the year of a £784k overspend.
- 3.2 During 2020/21 the Council worked hard to minimise the projected overspend and has achieved the significant reduction by optimising the Council's income compensation claim to MHCLG, along with officers taking mitigating action to reduce non-essential expenditure.

4 Updated Financial Position 2021/22

- 4.1 The impact of Covid on Council finances is expected to continue well in to 2021/22 and beyond, with income streams from areas such as car parks, the venues, commercial property, business rates and council tax taking time to recover as the economy gradually re-adjusts.
- 4.2 The Government has promised continued financial support through the income compensation scheme until 30 June 2021. This financial support is not included within the 2021/22 budget and therefore will provide additional funds to mitigate any income losses in excess of those already included within the budget.
- 4.3 The £950,000 Covid contingency within the Council's 2021/22 budget was based on the Government's projected 9.5% forecast reduction in GDP at the time of budget setting. This centrally held contingency will be used to mitigate any adverse financial impacts of Covid that are not covered by government funding.
- 4.4 The first budget monitoring report for 2021/22 (Quarter 1) will be presented to Audit Crime & Order and Scrutiny Committee on 1 September. The quarter 1 report projects a deficit for the 2021/22 year of £1.97m (post government support), mainly due to reduced income streams from car parking and the venues, combined with increased expenditure to manage homelessness. The deficit will provisionally be funded by the Council's £950k contingency and a £1.02m contribution from reserves

5 Challenges

- 5.1 The Council is progressing its Build Back Better recovery plan and is undertaking a significant staffing restructure, to ensure the organisation is well structured to deliver the priorities in the Corporate Plan/Vision and to meet future challenges. The staffing restructure is due for completion by 1 September and recruitment to vacant posts is well underway.
- 5.2 The implementation of the restructure requires significant senior staff resource to manage the process, and affected officers face the uncertainty of change processes, while also managing their business as usual day jobs. In addition, there is the ongoing requirement to continue managing the Council's response to Covid-19, and to implement frequently-changing government guidance.
- 5.3 The long term impact of Covid-19 on the Council's services will only be established accurately once a new normality becomes clear. For example it is not yet possible to know the extent to which car parking income will recover, or whether usage of our venues - such as the Playhouse, Community & Wellbeing Centre, Bourne Hall, Ewell Court House - and associated income streams will return to pre-pandemic levels. Until this uncertainty lifts, officers advise not making major changes or cuts to these service budgets at the current time, as to do so may be premature should the services subsequently recover to sustainable levels within a reasonable timeframe.
- 5.4 The Council is committed to costing the deliverables within the Climate Change Action Plan in the current year, and throughout the 2022/23 budget setting process, funding options will need to be identified for any agreed priorities.

6 Reserves

- 6.1 For Local Government, reserves play a crucial role in good public financial management. They exist so that the Council can invest in service transformation for the future or respond to unexpected events or emerging needs.
- 6.2 Reserves for EEBC can be distinguished between general fund revenue reserves and capital reserves. There is clear statutory and accounting guidance on how these two types of reserves can be applied and it varies for the two types.

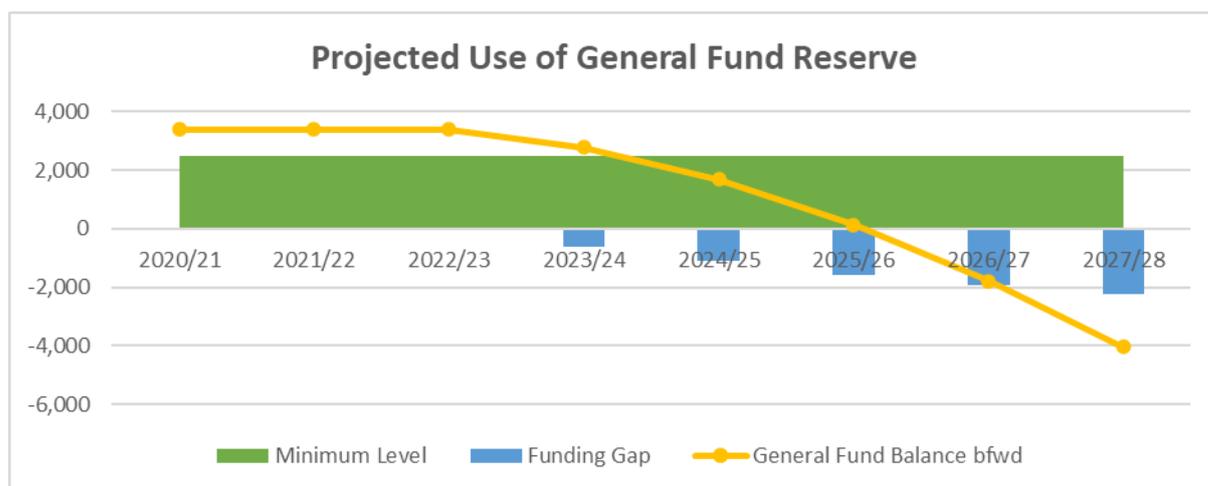
General Fund Revenue Reserves

- 6.3 The General Fund is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds, such as the Collection Fund, which separately accounts for local taxes (ie Council Tax and Business Rates) that are collected by the Council as an agent on behalf of itself and other bodies - MHCLG, SCC and Surrey Police).

- 6.4 General Fund revenue reserves are effectively the accumulated surplus of income over expenditure since the Council was established many decades ago. General Fund revenue reserves should not be used to fund revenue expenditure on an ongoing basis.
- 6.5 General Fund revenue reserves are classified as either earmarked or un-earmarked:

Un-earmarked GF Revenue Reserves (known as the GF Working Balance)

- 6.6 The un-earmarked GF reserve, often referred to as the GF working balance, is maintained to safeguard the Council against financial risks beyond those for which specific earmarked reserves have been created.
- 6.7 The ‘normal’ level of working balance will reflect the long-term needs of the Council and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross expenditure of the Council and the extent to which long-term service contracts reduce the Council’s flexibility to respond to financial shocks. Previously the Audit Commission had suggested that a yardstick for ‘normal’ un-earmarked reserves is between 5% and 100% of ‘net operating expenditure’. At £3.383m, EEBC’s GF working balance represents 39% of the Council’s net budget of £8.612m, placing the Council towards the middle of the Audit Commission’s recommended range.
- 6.8 The agreed Medium Term Financial Plan states that the Council will maintain a minimum GF working balance of £2.5m. However, current projections and assumptions predict that - without mitigating action - the Council would fall below this minimum level in 2024/25 and the reserve would be fully depleted by 2025/26, as shown on the following chart:



Earmarked GF Revenue Reserves (known as Strategic Reserves)

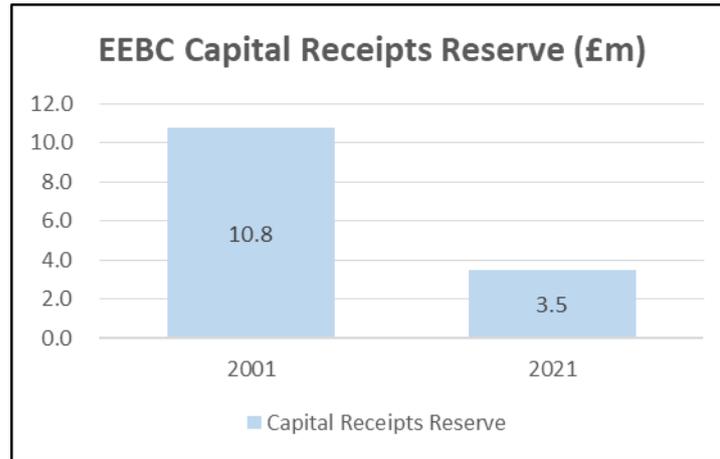
- 6.9 Earmarked reserves, also known as strategic reserves, are amounts set aside for specific policy purposes or contingencies and cash flow management. For each reserve established, the purpose and usage needs to be clearly defined.
- 6.10 In 2020/21 the Council was able to attain the target balance for the Property Income Equalisation Reserve, which represented a significant milestone in terms of financial resilience, particularly as there is a heightened risk that drawdowns from the reserve may be needed in the coming years, depending on how future economic changes impact on commercial property tenants and associated rental income streams.
- 6.11 At 31 March 2021, the Council's strategic earmarked reserves total £18.4m, as shown in the following table:

Strategic Revenue Reserves	Balance at 31/3/20	Balance at 31/3/21
	£'000	£'000
Interest Equalisation	400	400
Repairs and Renewals	359	390
Insurance	467	443
Community Safety	110	108
Property Maintenance	550	548
VAT Reserve	251	199
Housing & Planning Delivery Grant	88	88
Corporate Project Reserve (a)	3,957	4,673
Personalisation, Prevention & Partnership	73	73
Business Rate Equalisation Reserve (b)	1,291	9,306
Residential Property Acquisition Fund	1,161	1,066
HIA Hardship Fund	89	125
Sports & Leisure Development Projects Fund	86	87
Property Income Equalisation Reserve	3,829	5,495
Commuted Sums	1,464	1,447
Flexible Housing Support Grant	596	385
Basic Payments Scheme & Environmental Stewardship Grant	122	141
Other minor grants reserves	57	57
Covid Grants Reserve	0	121
SubTotal Strategic Reserves	14,950	25,152
Collection Fund Surplus/(Deficit)	1,136	(6,608)
Total Strategic Reserves and Collection Fund Account	16,086	18,544

- a) Of the £4.7m Corporate Projects Reserve balance, £1.5m is committed for existing workstreams including £0.9m to fund planning appeals and the Local Plan, £0.3m to balance the 2021/22 revenue budget, and £0.2m to pursue strategic asset reviews and regeneration opportunities.
 - b) The Business Rate Equalisation Reserve contains £6.6m in grants from MHCLG to fund the £6.6m collection fund deficit, which arose principally due to mandatory reliefs awarded to eligible businesses during the year, as instructed by central government. The £6.6m deficit must be funded by 2022/23 in accordance with collection fund regulations, therefore the S31 grants have been set-aside in reserves for this purpose. Any remaining balance on the reserve is expected to be used to offset potential future reductions in business rates income following central government's Fair Funding Review from 2023/24. The reserve may also be used to offset any significant, future successful appeals against business rate bills.
- 6.12 A review of the Council's reserves will be reported to members as part of the 2022/23 budget setting process.

Capital Reserves

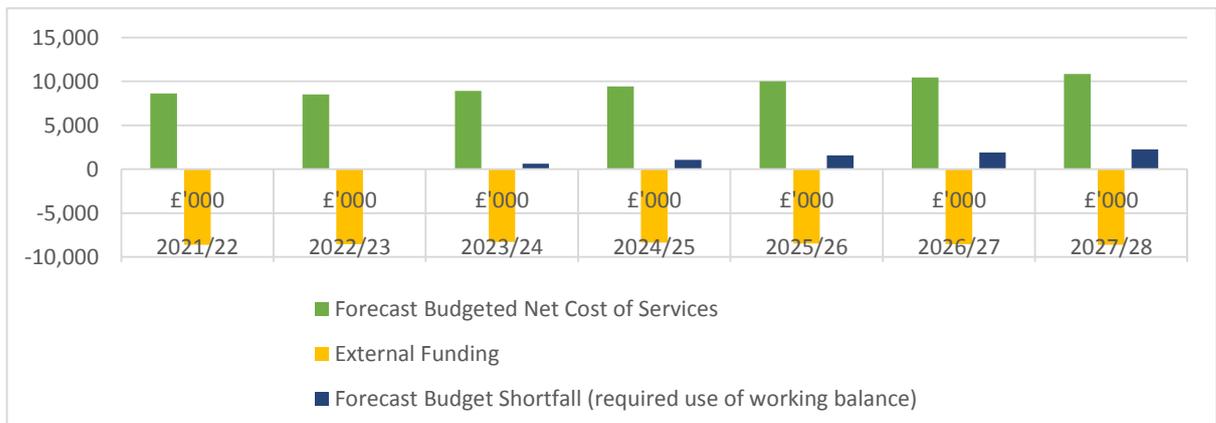
- 6.13 The Capital Receipts Reserve represents the funds, generated from past asset disposals, that are available to finance future capital expenditure. The levels of capital receipts held by Council to invest in its capital programmes has diminished over time, from over £10m in 2001 to £3.5m now in 2021. There are no major asset disposals currently planned to generate new capital receipts and replenish the reserve, as such without mitigating action, the reserve would continue to diminish and with the Council soon left with no funds to finance its annual capital programme.
- 6.14 To address this issue, the Council has agreed to provide funding for the capital programme through the general fund revenue budget. The 2021/22 revenue budget includes a £300k contribution towards the capital programme, and this contribution is forecast to increase annually by £100k in the coming years, to eventually reach a sufficient level to finance the whole annual capital programme.
- 6.15 The following chart illustrates how the capital receipts reserve has diminished since 2001:



7 2022/23 Projection

- 7.1 As the pandemic continues to impact the Council’s services and income streams, there remains a high level of uncertainty around the Council’s financial position for 2022/23. Furthermore, it is unlikely that services will have returned to their new normal levels by the time the Council must calculate and set next year’s budget.
- 7.2 The Government’s latest economic projection is for GDP to increase by approximately 4% in the next twelve months. Based on this official projection, it is considered that the Council’s existing £950k contingency for Covid-19 could be reduced by £350k down to £600k for 2022/23.
- 7.3 The Council’s latest forecast, shown in the following table, also removes reliance on retained business rates to finance the delivery of services by 2030/31 and provides for a sustainable capital programme to be fully funded from revenue by 2026/27:

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Forecast Budgeted Net Cost of Services	8,612	8,521	8,908	9,446	10,010	10,430	10,856
External Funding	-8,612	-8,529	-8,293	-8,365	-8,440	-8,518	-8,599
Forecast Budget Shortfall (required use of working balance)	0	-7	615	1,081	1,570	1,912	2,257



- 7.4 The forecast shows a broadly balanced position for 2022/23 (small surplus of £7k). Beyond then, to remove reliance on external business rates funding, the Council will need to deliver additional annual savings or income of £2.3 million by 2027/28.
- 7.5 In addition, it is important to note that the balanced position for 2022/23 will require delivery of existing savings totalling £342k, that are already agreed within the MTFS, as shown in the following table:

Summary of Agreed Savings for 2022/23		£000
Bourne Hall	C & W	30
Review of Ewell Court House	C & W	10
Tattenham Corner Conveniences	C & W	12
Income from Commercial Property	S & R	112
Review of Waste Collection	E & SC	100
Review of Grounds Maintenance	C & W	67
Other minor savings		11
Savings built into MTFS		342

8 External Funding (Business Rates, Council Tax and Government Grants)

- 8.1 The Government has indicated that it will delay the Fair Funding Review that had been scheduled for 2022/23. The Fair Funding Review (when complete) will be used by Government to recalculate each local authorities' baseline funding need and determine the proportion of business rates that each authority is permitted to retain in future. EEBC is currently permitted to retain just c.£1.6m of business rates funding out of c.£24m business rates collectible locally - the balance must be passed to SCC (10%) and MHCLG for redistribution across the rest of the country.
- 8.2 When complete, the Fair Funding Review is expected to favour upper tier/unitary authorities (i.e. those responsible for adult and children social services), at the expense of district councils, and therefore result in a reduction in retained business rates for district councils.
- 8.3 The latest delay to the Fair Funding Review means that the funding EEBC is permitted to retain from business rates for 2022/23 is likely to continue at similar levels to 2021/22.
- 8.4 However, the threat remains high that the Fair Funding Review will result in a reduced funding settlement for EEBC from 2023/24 and beyond. The Government has previously attempted to introduce a £625k cut to EEBC's funding settlement (through negative RSG) back in 2019/20. However, following significant lobbying from ourselves and other local authorities, Government agreed to remove the £625k cut from current settlements, pending the Fair Funding Review. However, it is expected that the reduction will eventually return to feature within revised settlement figures following the Fair Funding Review.

- 8.5 To reflect this, the latest forecast anticipates a £700k reduction in our core funding for 2023/24 when compared to budgeted levels for 2021/22.
- 8.6 In the meantime, the forecast for 2022/23 assumes business rates income will remain at 2021/22 Government baseline levels - this is considered a prudent approach and to mitigate the risk of any unexpected fluctuations in funding from this source, especially for example from business closures following the pandemic, the Council holds the Business Rates Equalisation Reserve.
- 8.7 The forecast assumes that the Council's agreed Pay Policy for 2020-24, which links the annual staff pay award to the change in consumer price inflation (CPI) will remain in effect.
- 8.8 The latest projection continues to anticipate an annual council tax increase of £4.95 for a band D equivalent property. This is currently the maximum increase permitted before requiring a local referendum. This increase brings in £170k of additional annual funding to support the cost of delivering Council services – without this increase in council tax, the budget gap for 2022/23 and beyond would rise by £170k, and further savings, cuts to services, or alternative income would need to be identified.

9 Proposed Strategy for 2022/23 Budget

- 9.1 The Council is facing a great deal of uncertainty, and it is unlikely to have sufficient information to reliably predict the long-term impact on Council services before the end of 2021/22. The Government's delay to the Fair Funding Review provides the Council with an opportunity to agree a budget for 2022/23 without the need for delivering any additional savings other than those already agreed within the current Financial Plan (which total £342k).
- 9.2 The Government's latest projection shows that GDP will increase by approximately 4% in the next twelve months resulting in a reduction of £350k in the Covid contingency down to £600k.
- 9.3 The Council should use this opportunity to start work on producing the long-term savings and reforms, such as reviewing the use of Council owned property, to deliver a sustainable long-term budget for the future.
- 9.4 The Council should also encourage and explore investment opportunities that can deliver long-term savings or sustainable income.
- 9.5 As with previous years, a review should take place of existing budgets to identify potential reductions in expenditure or increases in income.
- 9.6 The Council has agreed to undertake the following Strategic Asset/Service Reviews in the coming year;

- Bourne Hall

- The Museum
- Town Hall
- The Playhouse

9.7 It is hoped that at least some of these reviews will conclude with savings/efficiencies for the Council. However, as there is uncertainty until the reviews are actually undertaken, the current forecast position does not incorporate potential savings from these reviews

10 Proposed Strategic Budget Timetable

- 10.1 The proposed formal revenue and capital programme reporting timetables are contained in Appendix 1.
- 10.2 At September's Strategy and Resources Committee, the Chief Finance Officer will also update the ten-year financial forecast based on the current level of service provision.

11 Risk Assessment

Legal or other duties

11.1 Impact Assessment

11.1.1 A full budget risk assessment will be presented to Full Council in February 2021.

11.2 Crime & Disorder

11.2.1 None arising from the contents of this report.

11.3 Safeguarding

11.3.1 None arising from the contents of this report.

11.4 Dependencies

11.4.1 None arising from the contents of this report.

11.5 Other

11.5.1 None arising from the contents of this report.

12 Financial Implications

12.1 Financial implications are set-out in the body of the report.

- 12.2 **Section 151 Officer's comments:** The proposed budget strategy for 2022/23 will facilitate the Council to fulfil its statutory duty to produce a balanced budget each year.

13 Legal Implications

- 13.1 The Council has a statutory responsibility to set a balanced budget each year.
- 13.2 **Monitoring Officer's comments:** None arising from the contents of this report.

14 Policies, Plans & Partnerships

- 14.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council
- 14.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 14.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.
- 14.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 14.5 **Partnerships:** None arising from the contents of this report.

15 Background papers

- 15.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2021/22 Budget Report to Full Council, 16 February 2021;
- 2021/22 Budget Monitoring Report to Audit, Crime & Disorder and Scrutiny Committee, 1 September 2021.

Other papers:

- None.

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