

SIGNED OFF BY	Interim Head of Finance
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TO	Overview and Scrutiny Committee
DATE	Wednesday, 9 December 2020
EXECUTIVE MEMBER	Chair, Overview and Scrutiny Committee

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Budget Scrutiny Panel: Service and Financial Planning 2021/22
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RECOMMENDATIONS
<p>That in response to the Service and Financial planning 2021/22 report to Executive on 19 November 2020, the following observations be submitted for the consideration of the Executive:</p> <p>a) That the Overview and Scrutiny Committee thanks the Executive Member for Finance, Executive and Officers for preparing initial revenue and capital budget proposals for 2021/22;</p> <p>b) That the Overview and Scrutiny Committee considers the following to be achievable, realistic and based on sound financial practices and reasonable assumptions:</p> <p>(i) Revenue Budget Savings and Additional Income proposals totalling £2.094m.</p> <p>(ii) Revenue Budget Growth proposals totalling £0.812m</p> <p>(iii) Forecast ongoing income budget pressures in 2021/22 as a consequence of the COVID-19 pandemic totalling £1.610m (to be met by one-off funding from the Government Funding Risk Reserve)</p> <p>(iv) Capital Programme Growth and Reprofiling proposals resulting in a net reduction in the five-year Capital Programme of (£0.286m)</p> <p>(v) Revenue Reserve Balances at 1 April 2020 of £35.391m;</p>

c) That the Overview and Scrutiny Committee considers the potential negative impact of the savings and growth proposals on service delivery to be minimal and concluded that the Council was managing its finances well on behalf of its residents;

(d) That the budget proposals for 2020/21 included an allowance of £1.256m for the use of reserves including £1m to fund the headroom contingency budget, or a net increase of £256k excluding the headroom contingency budget. For 2021/22 no headroom budget has been established, and a drawing of £539k from reserves is planned. Any overspending will require further drawings from reserves;

e) That implementation of the Council's Commercial Strategy is vital to meeting the budget gaps in future years, as government funding is further reduced. The Overview & Scrutiny Committee notes that no substantial additional commercial income from investments is included in the 2020/21 budgets;

(f) That some capital budgets for investment are yet to be finalised, as well as a number of revenue budget items, and for this reason the Overview and Scrutiny Committee has yet to draw a conclusion on the overall budget proposals for 2021/22.

REASONS FOR RECOMMENDATIONS

The Committee is requested to consider the report and recommendations of the Budget Scrutiny Review Panel and make any observations on the Service and Financial Planning proposals for 2021/22, for consideration by the Executive in line with the Council's budget and policy procedure rules.

EXECUTIVE SUMMARY

Based on the information and explanations provided, and its assessment of the risk factors, the Panel concluded that each element of the 2021/22 Budget proposals that have been reported to date were achievable, realistic and based on sound financial practices and reasonable assumptions. The Panel concluded that the draft Budget for 2021/22 was professionally drawn up and that reasonable and supportable conclusions and judgements were applied. Members thanked the Interim Head of Finance and the Finance team for preparing them despite the many extra tasks and uncertainties thrown up by the challenges of responding to COVID-19.

It was noted that the use of £1.256m Reserves in 2020/21 included £1.0m to fund the headroom contingency budget which was not likely to be used in full. The equivalent call on Reserves for 2021/22 was currently forecast at £0.539m.

In the Panel's view the £0.539m was manageable given the Council's level of Reserves. However, the budget remains challenging over the medium term as the Council was still expecting to lose Government funding from 2022/23 onwards. Delivering successful projects in line with the newly adopted Commercial Strategy to increase income streams was therefore considered essential. The panel noted that no substantial additional revenue from commercial activities was factored into the 2021/22 budgets.

As set out in the concluding comments from the Panel, the growth in expenditure was moderate and the net headcount remains unchanged.

The draft budget includes deletion of unused Central Budgets including the budget of £375k for employer pension fund contributions that are no longer required.

The Panel noted that there was no impact on services or service levels from the draft budget proposals. It concluded that the Council was managing its finances well on behalf of residents. However, the conclusions were in the context of the current draft budget report and supporting papers. Members awaited further final details in January.

STATUTORY POWERS

1. The Local Government Act 1972 requires the Council to set an annual budget as part of proper financial management through the Service and Financial Planning report each year.
2. The Local Government Act 1992 requires councils to set a balanced budget and announce the Council Tax level by 11 March each year.
3. The Local Government Act 2000 makes it clear that the role of scrutiny in the financial process is to hold the Executive to account and to ensure that its decisions are in the best interests of the community.

BACKGROUND

1. The Executive on 27 February 2020 supported the Committee's request for the Budget Scrutiny Review Panel to be re-established for 2020/21 and included in its work programme.
2. The Budget Scrutiny Review Panel 2020 focused on consideration of the draft Budget proposals for 2021/22.
3. The Service and Financial Planning 2021/22 Report and supporting documents were circulated as part of the Advance Questions process for the Budget Scrutiny Review Panel Members on 20 November 2020. The responses provided by officers were circulated in advance to Panel Members before the Panel meeting on 30 November 2020.
4. The Panel was requested to offer its comments and recommendations to the Overview and Scrutiny Committee on 9 December 2020 on its review of the consultation document. The Executive was due to approve the proposed Budget for 2021/22 on 28 January 2021 after considering the recommendations from the Overview and Scrutiny Committee.
5. The objective of the Panel was to satisfy its Members that the Budget plan was achievable, realistic and based on sound financial practices. It scrutinised the following: the assumptions which underpinned the budget; the impact of any savings on service delivery; the justification for any growth proposals; and how the revenue budget and capital plan related to the delivery of corporate priorities.

CONCLUSIONS

Approach

6. Councillor N. Harrison introduced the Panel meeting which was going to look at the responses to the 78 Advance Questions that were raised by Panel Members and to consider any supplementary questions from the Panel.
7. Councillor T. Schofield, Executive Member for Finance and Deputy Leader, set out some introductory comments. It was noted that the Chancellor's Spending Review on 25 November 2020 had taken place after the Budget papers had been published so there would be further updates in the January Executive report with regard to Government funding, in particular support for ongoing COVID financial impacts.
8. Panel Member questions were asked on the following areas which were debated and discussed by the Panel.

Environmental Sustainability Strategy

9. Members asked what projects would support delivery of the Environmental Sustainability Strategy. By way of example, it was confirmed that a bid is being submitted to Surrey County Council for a share of the additional income from council tax on empty homes in the borough. It was not known yet how much this might be; when confirmed will be reported in the January budget report.

New Homes Bonus

10. Members asked why the New Homes Bonus was not continuing to be allocated to implementation of the Housing Delivery Strategy reserve and why the report did not assume any new NHB allocation for 2021/22. It was explained that the report was written before the Spending Review announcement on 25 November 2020 where a 2021/22 allocation of New Homes Bonus was confirmed. This council's NHB allocation would not be known until the provisional settlement announcement at the end of the month. NHB funds are not ring-fenced so they could be used by Executive to support any budget priorities.

Brexit

11. The Panel asked for clarification of any financial risks relating Brexit at the end of the calendar year. The Executive Member for Finance said that there remains uncertainty and, as far as the Council could ascertain, there was no known impact forecast on Council supply chains, but the situation remains under review.

Finance overspend forecast outturn for 2020/21

12. Panel Members asked for a breakdown of the projected Finance team overspend. It was confirmed that there was an underspend on salaries of £275k that was offset by additional spending of £874k on interim staff and consultants due to additional Statement of Accounts/Audit requirements and support of major projects – resulting in a net overspend on staff costs of £599k. There were also additional costs of printing and postage (£26k) and other non-pay budget pressures of £15k resulting in a total overspend for the year of £640k.

Growth due to tax base

13. A 1% growth of the tax base would be equivalent to 615 additional Band D properties. It was explained that these are the Band D equivalents and do not equate to the actual number of new homes constructed each year.

Local Council Tax Support Scheme

14. Members asked how growth in claims under the Local Council Tax Support Scheme due to COVID-19 is reflected in the budget. It was explained that this is taken into account when the Band D equivalents are calculated when estimating the council tax base. The cost of the Council's contribution to payment of claimants' council tax under the Scheme is taken into account before arriving at the net income from council tax that is payable to the Council from the Collection Fund.

Pay Award

15. A verbal update was given on the staff pay award this year by Mari Roberts-Wood, Interim Head of Paid Service. The pay award is negotiated locally, so the Chancellor's announcement of a pay freeze for public sector workers does not apply. The Council was in the process of negotiating with the unions. The proposed increase of 1.3% in 2021/22 had been agreed with the Employment Committee and the unions were about to ballot their members on it. The outcome was expected to be confirmed in the January budget report. It was noted that the Council had paid a small bonus to all staff during 2020/21 for their contribution to the Council's response to the COVID-19 pandemic.

Treasury Management MRP (Minimum Revenue Provision) and approved Capital Programme

16. Members asked about the increase of £0.5m in the cost of borrowing to support delivery of the approved Capital Programme. It was confirmed that the £0.5 million was an initial broad estimate of the additional borrowing costs for budget planning purposes. The final costs would be reported, as usual, in the January budget report.

Collection Fund

17. The report sets out the current forecast for the shortfall in total Collection Fund income across all preceptors due to COVID-19 which was £7.65m. It was confirmed that the Chancellor's Spending Review set out further Government measures to support councils including an intention to fund 'up to 75% of irrecoverable losses'. The details are to be confirmed in the local government settlement and will be covered in the January budget report.

Budget uncertainties at this stage

18. The budget uncertainties at this stage of the budget setting process were noted and included: some central budgets, the final council tax base, government funding, any further capital programme growth proposals, outcome of the fees and charges review, final treasury management and MRP costs, plus ongoing COVID-19 impacts. Overview and Scrutiny asked to consider these at their January meeting if details had been finalised and approved for disclosure by the Executive at that date.

Commercial Strategy

19. Members noted that to generate £2m of additional net income would require borrowing and re-investment in income-generating assets of circa £106m (based on

prevailing PWLB rates at the time of preparing the report). This was a return of 1.9% which seemed low. The Executive Member for Finance explained that this was the net return after taking into account borrowing costs. Members noted that development of the Commercial Investment Strategy had made slow progress. It was confirmed that there would be no commercial income in 2021/22 from investments which would become a problem if not addressed for subsequent years as the Council lost Government funding.

20. Members asked when the Marketfield Way development would start to bring in commercial income. It was noted that following the Overview and Scrutiny Committee meeting on 9 December, Members had the opportunity to look at the progress of Marketfield Way and other projects set out in the update Programme Dashboards.

Service Plans

21. Members noted that there were no planned reductions in service levels or the range of services provided in 2021/22 which was an important point to highlight in this report.

Budget variances 2020/21

22. Members considered the budget variances during 2020/21 and asked how this fed into budget setting. The Interim Head of Finance made reference to factors leading to savings in 2021/22 such as vacant posts that had been reviewed as part of budget setting 2021/22 and also the fees and charges review. Other in-year variances had led to budget growth: for example, Revenues & Benefits printing and postage costs..

Fees and Charges review

23. Panel Members asked when the fees and charges review was due to be completed and asked for a report to come back to Overview and Scrutiny next year. The Interim Head of Finance explained that the current focus was on the services the Council currently does not charge for. The review will continue through this budget cycle and into next year until all fees and charges have been reviewed. The outcome of the initial work will feed into the January budget report.
24. It was noted that recent information from CIPFA indicates that this Council has a relatively lower level of fees and charges in 2020/21 (18.72% of budget resources) compared to similar authorities (the majority of which generate 40% of their income from this source). Members asked if there was further analysis on the different income streams. It was explained that there is a combination of mandatory fees and charges that are set by Government and discretionary fees that the Council is able to set. Once the review was carried out then the findings could be presented for a decision on options put forward.

Waste & Recycling and Bed & Breakfast costs

25. The Panel noted that the budgets for these two services reflected higher levels of income than in the previous three years. Increasing bed & breakfast income was a success story due to the Council's investment and purchase of a property in Massetts Road, Horley for homeless families. This meant that the Council could work more closely with families who remained in the Borough and as a result cost savings had been achieved. The Panel was informed that the Council was working closely with Raven Housing Trust at Chavecroft in the Tattenham Corner & Preston ward which provided temporary emergency housing for single homeless people with complex

needs. This was no longer suitable in its current form and a number of other more suitable properties had been identified that the residents were relocating to.

COVID-19 income impact

26. Councillor N. Harrison thanked officers for their analysis on the impact of COVID-19 on the Council's income for 2021/22. This helped Members understand their judgements and how they arrived at these conclusions.
27. Members asked about income pressures for this year 2020/21. The proportion of income from commercial rents was relatively small whereas other Councils were more exposed in this area. However, the total forecast impact of COVID-19 on other income streams was very large: in total £4.713m including £2.213m on income losses from car parking charges. These were set out on p87 of the main BSP report in Table 4.4.

Staff posts

28. Members asked what the overall reduction of staff posts was predicted to be. A reduction of six posts is proposed; offset by the proposed growth by six posts in other services as set out in the report. It was confirmed that the post of Chief Executive was still funded in the budget and remains vacant until the Leader, Deputy Leader and Employment Committee make a decision on how to proceed. A table on p25 of the Advance Question responses (BSP1-046) set out the current vacancies and confirms those with interim cover. Filling some vacancies had been delayed due to COVID-19 such as the roles in Community Centres. Members noted that the six new posts included new posts for delivering the Council's commercial strategy. This additional resource was welcomed by Panel Members to get this area of work moving forward. Proposals also, include an additional waste crew to meet increased demand.

Business rates

29. Members asked about the impact of office conversions to residential and the impact of empty premises on business rates. The Interim Head of Finance said initial business rate income forecasts had been prepared for this draft budget report and the Finance team was now working on the latest forecasts for the final budget report. It was noted that NNDR appeals go back several years and can be quite substantial in value; the Council does however make provision for these costs based on specialist advice.

Green Homes grants and Build Back Better

30. Panel Members asked how much would be received from the Green Homes grant and whether this was included in the budget. Members also asked how much was likely to be received from the Council's bid for the Build Back Better initiative funding. The Green Homes grant is allocated across Surrey on a first come, first served basis to residents who meet the eligibility criteria. There is no fixed allocation for RBBC, and this has not been included in the budget assumptions. Applications from the Getting Building Fund and the Local Growth fund have been approved in relation to the Marketfield Way project. These total £2m and are included in capital funding assumptions.

Lease renegotiation

31. The Panel asked what the future anticipated rental rates were likely to be for the hotel in Redhill and would the outstanding rent owed by Travelodge be repaid? The Panel was advised that, as negotiations were continuing, Members would be updated in due course.

Environmental Sustainability Delivery Strategy

32. It was noted that there was an Environmental Sustainability Reserve established in 2020/21 with a value of £250k. The unspent balance on this Reserve will be carried forward into 2021/22 and will continue to be available to enable sustainability activity across all Council services. In addition, a separate capital programme allocation of £250k is proposed in 2021/22 which will be allocated to specific projects in due course.

Moderate growth in expenses

33. Panel Members concluded that the Revenue Budget year on year comparison showed a relatively moderate growth in expenditure for 2021/22 compared with the substantial increase in 2020/21. There was also no net change to headcount. In 2020/21, the Council is drawing £1.256m from Reserves of which £1.0m is used to fund Headroom which may not be used. In 2021/22 there was no longer £1.0m of Headroom and the use of reserves was £0.539m which was considered manageable given the current level of Reserves. The Budget remains challenging over the medium term as the Council was due to lose Government funding and the success of the commercial strategy was yet to be confirmed. Members were content with the proposed approach for the coming year.

Review of Reserves

34. The review of the Council's reserves and questioning what they were there for had been thorough with contingencies and reserves rationalised. This made the budget more transparent and less confusing with no surprises as in previous years. Paper BSP1-026 on p24 of the Advance Question responses set out the movement in Reserves. It confirmed there were £41.59m in reserves at 31 March 2020 and that £6.2m was used to pay up-front pension costs on 1 April 2020. £1.6m is forecast to be drawn from Reserves during 2021/22 to cover ongoing COVID-19 income losses although the announcement in the Spending Review on 25 November indicated that the Council would potentially get some further COVID-19 funding for this next year.

Service and Financial Planning Report 2021/22

35. Panel Members noted the report and additional documents and had no further comments to make.

Concluding comments

36. The Panel concluded that the Budget for 2021/22 was professionally drawn up and that reasonable and supportable conclusions and judgements were applied. Members thanked the Interim Head of Finance and the finance team for the many extra tasks and uncertainties thrown up by the challenges of responding to COVID-19.
37. Members noted that homelessness risks would continue to rise but progress seen in Massetts Road, Horley was a good example of the Council addressing historic

higher costs of out of Borough emergency accommodation. The Council was also looking at another project to help single homeless adults with multiple and complex problems. This was featured in the Housing Delivery Strategy.

38. It was noted that it was not yet known how much the Environmental Sustainability Strategy would cost to deliver.
39. The roll-out of recycling to flats was still progressing and in the current year the target had not been met. It might be necessary to allocate more revenue and capital budget in future years to complete this project. It was noted that some of the new posts were a new crew to help to deliver recycling to more premises, demonstrating that the Council was determined to get this planned roll-out achieved.
40. Members noted the losses in income due to COVID-19 costs for 2020/21 and 2021/22.
41. The Panel noted that there was no impact on services or service levels. It concluded that the Council was managing its finances well on behalf of residents.
42. Overall, the Panel agreed that the budget proposals were achievable, realistic, and based on sound financial practices.
43. The Interim Head of Paid Service thanked the Interim Head of Finance and the Finance team for its work, including submitting numerous claim forms to Government and to track the spending on the impacts of COVID-19 which was a mammoth task.

Next steps

44. The Budget Scrutiny Panel would report to Overview and Scrutiny Committee on 9 December 2020. The Executive would consider its report on 17 December and the approved budget was due to be considered by Executive on 28 January 2021 and recommended to Full Council in February.
45. Overview and Scrutiny had a meeting in January and Members asked to see the final budget as there were still outstanding issues in the budget proposals.

OPTIONS

46. Option 1 – To submit the recommendations and conclusions of the Panel to the Executive, to inform its consideration of the 2021/22 Budget proposals, and to note the identified change to the baseline budget. This is the recommended option as it will reflect the in-depth analysis of the Budget Scrutiny Review Panel and support effective decision making by the Executive.
47. Option 2 – To not submit the recommendations and conclusions to the Executive, or to not note the identified change to the baseline budget. This is not the recommended option as it will not reflect the in-depth analysis of the Budget

Scrutiny Review Panel and will not support effective decision making by the Executive.

48. In addition to the primary options outlined, the Committee may also wish to submit additional observations to the Executive.

LEGAL IMPLICATIONS

49. There are no direct legal implications arising from the recommendations in this report subject to the Council adopting a balanced budget for 2021/22 by xx March 2021 to meet the requirements of the Local Government Finance Act 1992.

FINANCIAL IMPLICATIONS

50. Financial implications are addressed throughout the Service and Financial Planning 2021/22 report.

EQUALITIES IMPLICATIONS

51. These are considered in the Service and Financial Planning 2021/22 report.

COMMUNICATION IMPLICATIONS

52. These considerations are set out in the Service and Financial Planning 2021/22 report.

RISK MANAGEMENT CONSIDERATIONS

53. These are considered in the Service and Financial Planning 2021/22 report.

CONSULTATION

54. The Service and Financial Planning 2021/22 report and papers were considered by the Budget Scrutiny Panel at its meeting on 3 December 2020 and responses set out in this report.

55. The Budget Scrutiny Panel report would be considered by Overview and Scrutiny Committee on 9 December 2020. The Executive would consider its report and recommendations at its meeting on 17 December 2020 and the approved budget was due to be considered by Executive on 28 January 2021 and recommended to Full Council in February.

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POLICY FRAMEWORK

57. Service and Financial Planning – The Budget proposals form part of the Council's budget and policy framework. The annual budget is developed to ensure that the Council can deliver the Corporate Five Year Plan and services to residents and businesses.

BACKGROUND PAPERS

1. Annex 1 – [Responses to Advance Questions put by Budget Scrutiny Review Panel Members.](#)